Pro Publica, Inc.

Financial Statements

December 31, 2012

Independent Auditors' Report

Board of Directors
Pro Publica, Inc.

We have audited the accompanying financial statements of Pro Publica, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pro Publica, Inc. as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's December 31, 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 11, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

O'Connor Davies, LLP

New York, New York
May 16, 2013

Pro Publica, Inc.

Statement of Financial Position
December 31, 2012
(with comparative amounts at December 31, 2011)

	2012	2011
ASSETS		
Cash and cash equivalents	$ 1,873,557	$ 1,516,931
Accounts receivable	1,012	1,525
Contributions receivable, net	2,192,658	1,507,680
Prepaid expenses	112,851	72,050
Investments	24,437	-
Security deposit	5,617	3,960
Property and equipment, net	319,311	489,005
	$ 4,529,443	$ 3,591,151
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 99,278	$ 133,015
Deferred rent	19,800	119,303
Total Liabilities	119,078	252,318
Net Assets		
Unrestricted	1,680,365	1,810,199
Temporarily restricted	2,730,000	1,528,634
Total Net Assets	4,410,365	3,338,833
	$ 4,529,443	$ 3,591,151

See notes to financial statements

Pro Publica, Inc.

Statement of Activities
Year Ended December 31, 2012
(with summarized totals for the year ended December 31, 2011)

	Unrestricted	Temporarily Restricted	2012 Total	2011 Total
SUPPORT AND REVENUE				
Foundation grants	$ 5,108,544	$ 2,775,000	$ 7,883,544	$ 8,318,995
Contributions	3,036,475	-	3,036,475	1,796,372
Interest and other income	35,963	-	35,963	27,413
Net assets released from restrictions	1,573,634	(1,573,634)	-	-
Total Support and Revenue	9,754,616	1,201,366	10,955,982	10,142,780
EXPENSES				
Program	8,357,078	-	8,357,078	8,145,875
Management and general	1,097,682	-	1,097,682	1,012,022
Fundraising	429,690	-	429,690	493,753
Total Expenses	9,884,450	-	9,884,450	9,651,650
Change in Net Assets	(129,834)	1,201,366	1,071,532	491,130
NET ASSETS				
Beginning of year	1,810,199	1,528,634	3,338,833	2,847,703
End of year	$ 1,680,365	$ 2,730,000	$ 4,410,365	$ 3,338,833

See notes to financial statements

Pro Publica, Inc.

Statement of Functional Expenses
Year Ended December 31, 2012
(with summarized totals for the year ended December 31, 2011)

	Program	Management and General	Fundraising	2012 Total	2011 Total
Staffing	$ 6,278,528	$ 912,588	$ 337,631	$ 7,528,747	$ 7,068,159
Professional development	8,487	6,428	-	14,915	27,163
Occupancy	591,170	52,044	-	643,214	635,328
Insurance	81,714	11,113	-	92,827	136,912
Freelance and consulting fees	129,811	-	225	130,036	255,143
Accounting fees	19,600	5,600	2,800	28,000	27,500
Legal fees	23,648	10,990	12,642	47,280	49,064
Recruitment	33,871	-	-	33,871	36,228
Travel	366,871	2,958	33,530	403,359	422,522
Website development and design	158,408	495	32,614	191,517	147,781
Advertising	26,175	-	2,508	28,683	19,555
Software and tech support	42,061	14,266	-	56,327	56,851
Public records copies and subscriptions	144,532	248	386	145,166	203,454
Telecommunications	97,498	11,404	-	108,902	135,367
Repairs and maintenance	48,023	8,582	-	56,605	57,138
Printing and postage	5,344	10	279	5,633	8,326
Office expense	-	-	-	-	13,592
Meeting expense	18,135	3,404	1,193	22,732	21,318
Supplies	25,921	2,652	-	28,573	31,168
Equipment lease	10,201	1,402	-	11,603	12,799
Depreciation	246,713	52,895	-	299,608	269,565
Bad debt expense	-	-	-	-	10,000
Bank fees	367	603	5,882	6,852	6,717
	$ 8,357,078	$ 1,097,682	$ 429,690	$ 9,884,450	$ 9,651,650

See notes to financial statements

Pro Publica, Inc.

Statement of Cash Flows
Year Ended December 31, 2012
(with comparative amounts for the year ended December 31, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,071,532	$ 491,130
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	299,608	269,565
Amortization of rent allowance	(99,503)	(79,017)
Uncollectible pledges	-	(10,000)
Donated stock	(24,437)	-
Changes in operating assets and liabilities		
Accounts receivable	513	727
Contributions receivable	(684,978)	74,387
Prepaid expenses	(40,801)	95,883
Accounts payable and accrued expenses	(33,737)	5,967
Net Cash from Operating Activities	488,197	848,642
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(129,914)	(175,999)
Security deposit paid	(1,657)	-
Net Cash from Investing Activities	(131,571)	(175,999)
Net Change in Cash and Cash Equivalents	356,626	672,643
CASH AND CASH EQUIVALENTS		
Beginning of year	1,516,931	844,288
End of year	$ 1,873,557	$ 1,516,931

See notes to financial statements

1. Organization

Pro Publica, Inc. (the "Organization") is an independent newsroom that produces investigative journalism in the public interest. The Organization's work focuses exclusively on truly important stories, stories with "moral force." The Organization does this by producing journalism that shines a light on exploitation of the weak by the strong and on the failures of those with power to vindicate the trust placed in them.

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code, and has been classified as an organization that is not a private foundation.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less at the time of purchase to be cash equivalents.

Fair Value Measurements

The Organization follows Financial Accounting Standards Board (FASB) guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Contributions Receivable

Unconditional contributions due in the next year are recorded at their estimated fair value. Unconditional contributions due in subsequent years are reported at the present value of their net realizable value, using risk-adjusted rates applicable to the years in which the promises are received.

2. Summary of Significant Accounting Policies *(continued)*

Investments and Investment Income Recognition

Investments are stated at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest and dividends are recorded when earned.

Property and Equipment

Property and equipment are stated at cost and depreciated on the straight-line basis over the estimated useful lives of the assets. The Organization capitalizes all expenditures of property and equipment in excess of $1,000.

Deferred Rent

Certain operating leases include rent increases during the initial lease term. For these leases, the Organization recognizes the related rental expense on a straight-line basis over the term of the lease and records the difference between the amounts charged to operations and amounts paid as a rent liability. Rent is recognized on a straight-line basis over the lease term, which includes any rent holiday period.

Net Asset Presentation

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use is limited by donors to a specific time period or purpose. Permanently restricted net assets are limited by donors for investments in perpetuity.

Contributions

Contributions are recorded when the unconditional promises to give are made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional contributions are recognized when the conditions on which they depend are substantially met. The change in the present value discount from year to year is reported as contribution revenue in the statement of activities.

Advertising Costs

The Organization expenses the costs of advertising as incurred.

Accounting for Uncertainty in Income Taxes

The Organization's recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition. The Organization is no longer subject to audits by the applicable taxing jurisdictions for periods prior to 2009.

2. Summary of Significant Accounting Policies *(continued)*

Prior Year Summarized Information

The statements of activities and functional expenses include certain prior year summarized comparative information in total, which does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for 2011, from which the summarized information was derived.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is May 16, 2013.

3. Investments

The investments at December 31, 2012, of $24,437, consist of an equity security, which was donated to the Organization and valued using a Level 1 fair value input.

4. Contributions Receivable

Unconditional pledges are included in the financial statements as contributions receivable and revenue, net, after discounting at 3.87% to the present value of expected future cash flows and are deemed to be fully collectible by management. The discount rate is based on the Federal Reserve's statistical release of terms of business lending in effect at December 31, 2012.
Management expects contributions receivable at December 31, 2012 to be realized in the following periods:

Due within one year	$ 1,298,902
Due within two to three years	930,000
Discount to present value	(36,244)
	$ 2,192,658

5. Concentration of Credit Risk

The Organization maintains its cash accounts with major financial institutions which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes its cash balances are not exposed to any significant risk. Contributions receivable are from limited sources, subjecting the Organization to a concentration of credit risk.

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2012

6. Property and Equipment

Property and equipment consist of the following at December 31:

	2012	2011
Office furniture and fixtures	$ 520,245	$ 520,245
Website	425,385	374,921
Computers	498,299	418,849
	1,443,929	1,314,015
Accumulated depreciation	(1,124,618)	(825,010)
	$ 319,311	$ 489,005

7. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets for 2012 are as follows:

Purpose/Restriction	Beginning Balance	Contributions Received	Assets Released	Ending Balance
Distributed reporting	$ 36,782	$ -	$ (36,782)	$ -
News applications	-	2,000,000	(330,000)	1,670,000
Fundraising development	63,836	-	(63,836)	-
Environmental reporting	13,083	-	(13,083)	-
Timing	1,414,933	775,000	(1,129,933)	1,060,000
	$ 1,528,634	$ 2,775,000	$(1,573,634)	$ 2,730,000

8. Economic Dependency

Funding from a single donor amounted to 37% of total revenue and support in 2012.

9. Commitments

The Organization has a lease agreement for its New York City office space that expires in 2015. The Organization has a letter of credit with a bank of $97,110 for the New York City lease agreement. The letter of credit is renewed annually. The Organization leases space for an office in Maryland that expires in June 2014. Rent expense for all office space for 2012 was approximately $743,000. Approximate future minimum annual lease payments at December 31, 2012 are as follows:

2013	$142,200
2014	11,100
	$153,300

10. Retirement Plan

The Organization has a 403(b) plan covering all eligible employees in which the Organization matches 100% of all contributions up to 5% of the employees' annual salaries subject to a maximum of $12,750. The Organization's contributions amounted to $231,758 for 2012.

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