Pro Publica, Inc.

Financial Statements

December 31, 2011

O'CONNOR DAVIES

PKF

Independent Auditors' Report

The Board of Directors
Pro Publica, Inc.

We have audited the accompanying statement of financial position of Pro Publica, Inc. (the "Organization") as of December 31, 2011 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 financial statements and, in our report dated May 25, 2011, we expressed an unqualified opinion on those financial statements.

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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

O'Connor Davies, LLP

New York, New York
May 11, 2012

O'CONNOR DAVIES, LLP
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Pro Publica, Inc.

Statement of Financial Position
December 31, 2011
(with comparative amounts at December 31, 2010)

	2011	2010
ASSETS		
Cash and cash equivalents	$ 1,516,931	$ 844,288
Accounts receivable	1,525	2,252
Contributions receivable, net	1,507,680	1,572,067
Prepaid expenses	72,050	167,933
Security deposit	3,960	3,960
Property and equipment, net	489,005	582,571
	$ 3,591,151	$ 3,173,071
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 133,015	$ 127,048
Deferred rent	119,303	198,320
Total Liabilities	252,318	325,368
Net Assets		
Unrestricted	1,810,199	299,792
Temporarily restricted	1,528,634	2,547,911
Total Net Assets	3,338,833	2,847,703
	$ 3,591,151	$ 3,173,071

See notes to financial statements

Pro Publica, Inc.

Statement of Activities
Year Ended December 31, 2011
(with summarized totals for the year ended December 31, 2010)

	2011			
	Unrestricted	Temporarily Restricted	Total	2010 Total
SUPPORT AND REVENUE				
Foundation grants	$ 7,143,995	$ 1,175,000	$ 8,318,995	$ 9,380,542
Contributions	1,791,372	-	1,791,372	828,859
Interest and other income	32,413	-	32,413	15,261
Net assets released from restrictions	2,194,277	(2,194,277)	-	-
Total Support and Revenue	11,162,057	(1,019,277)	10,142,780	10,224,662
EXPENSES				
Program	8,145,875	-	8,145,875	7,912,382
Management and general	1,012,022	-	1,012,022	949,227
Fundraising	493,753	-	493,753	278,673
Total Expenses	9,651,650	-	9,651,650	9,140,282
Change in Net Assets	1,510,407	(1,019,277)	491,130	1,084,380
NET ASSETS				
Beginning of year	299,792	2,547,911	2,847,703	1,763,323
End of year	$ 1,810,199	$ 1,528,634	$ 3,338,833	$ 2,847,703

See notes to financial statements

Pro Publica, Inc.

Statement of Functional Expenses
Year Ended December 31, 2011
(with summarized totals for the year ended December 31, 2010)

	2011				2010
	Program	Management and General	Fundraising	Total	Total
Salaries	$ 4,949,646	$ 678,063	$ 343,315	$ 5,971,024	$ 5,782,465
Fringe benefits	639,733	93,371	32,794	765,898	646,946
Payroll taxes	277,302	39,359	14,576	331,237	321,254
Professional development	23,282	2,836	1,045	27,163	5,644
Occupancy	566,323	69,005	-	635,328	627,249
Insurance	123,935	12,977	-	136,912	161,082
Freelance and consulting fees	255,143	-	-	255,143	222,226
Accounting fees	19,250	5,500	2,750	27,500	25,500
Legal fees	28,370	8,036	12,658	49,064	30,279
Recruitment	36,068	160	-	36,228	3,131
Travel	376,012	2,300	44,210	422,522	369,847
Website development and design	135,474	-	12,307	147,781	205,886
Advertising	255	-	19,300	19,555	5,589
Software and tech support	40,987	15,864	-	56,851	48,203
Public records copies and subscriptions	201,086	1,305	1,063	203,454	175,389
Telecommunications	122,323	13,044	-	135,367	121,843
Repairs and maintenance	51,401	5,737	-	57,138	65,181
Printing and postage	7,347	586	393	8,326	6,701
Office expense	11,803	1,789	-	13,592	5,957
Meeting expense	14,594	2,243	4,481	21,318	14,835
Supplies	25,640	5,528	-	31,168	40,406
Equipment lease	11,404	1,395	-	12,799	12,360
Depreciation	218,324	51,241	-	269,565	239,449
Bad debt expense	10,000	-	-	10,000	-
Bank fees	173	1,683	4,861	6,717	2,860
	$ 8,145,875	$ 1,012,022	$ 493,753	$ 9,651,650	$ 9,140,282

See notes to financial statements

Pro Publica, Inc.

Statement of Cash Flows
Year Ended December 31, 2011
(with comparative amounts for the year ended December 31, 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 491,130	$ 1,084,380
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	269,565	239,449
Deferred rent	(79,017)	(19,565)
Uncollectible pledges	(10,000)	-
Changes in operating assets and liabilities		
Accounts receivable	727	(193)
Contributions receivable	74,387	(709,617)
Prepaid expenses	95,883	6,884
Accounts payable and accrued expenses	5,967	8,899
Net Cash from Operating Activities	848,642	610,237
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(175,999)	(292,244)
Security deposit paid	-	(3,960)
Net Cash from Investing Activities	(175,999)	(296,204)
Net Change in Cash and Cash Equivalents	672,643	314,033
CASH AND CASH EQUIVALENTS		
Beginning of year	844,288	530,255
End of year	$ 1,516,931	$ 844,288

See notes to financial statements

1. Organization

Pro Publica, Inc. (the "Organization") is an independent newsroom that produces investigative journalism in the public interest, which commenced operations on October 15, 2007. 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 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.

Basis of 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.

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.

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.

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

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.

Unconditional contributions due in the next year are recorded at their net realizable value. Unconditional contributions due in subsequent years are reported at the present value of their net realizable value, using interest rates applicable to the years in which the promises are received. 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 2008.

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for 2010, 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 11, 2012.

3. Economic Dependency

Funding from a single donor amounted to 49% of total revenue and support in 2011. The Organization is economically dependent on these funds to continue operations.

4. 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.

5. Contributions Receivable

Contributions receivable of $1,507,680 at December 31, 2011 include pledges of $325,000 (net of a discount of $13,368) which is expected to be collected in 2012 and 2013. Payments to be received after December 31, 2012 are discounted to their present value using an interest rate of 4.38% 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, 2011.

6. Property and Equipment

Property and equipment consist of the following at December 31:

	2011	2010
Office furniture and fixtures	$ 520,245	$ 518,698
Website	374,921	273,022
Computers	418,849	346,296
	1,314,015	1,138,016
Accumulated depreciation	(825,010)	(555,445)
	$ 489,005	$ 582,571

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2011

7. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets for 2011 are as follows:

Purpose/Restriction	Beginning Balance	Contributions Received	Assets Released	Ending Balance
Distributed reporting	$ 181,726	$ -	$ (144,944)	$ 36,782
Fundraising development	554,839	-	(491,003)	63,836
Environmental reporting	-	25,000	(11,917)	13,083
Timing	1,811,346	1,150,000	(1,546,413)	1,414,933
	$ 2,547,911	$ 1,175,000	$(2,194,277)	$ 1,528,634

8. Commitments

The Organization has a lease agreement for its New York City office space that expires in 2015. A termination option will become effective in 2013 if the office space can no longer accommodate the Organization's growth or if the Organization becomes insolvent. The Organization leases space for an office in Maryland that expires in August 2012. Rent expense for all office space for 2011 was approximately $714,000.

Approximate future minimum annual lease payments at December 31, 2011 are as follows:

2012	$ 703,000
2013	120,000
	$ 823,000

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 to be renewed annually until the expiration of the lease.

9. 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 $12,250. This amount is subject to future modification, and any changes must be approved by the Board of Directors. The Organization's contributions amounted to $195,402 for 2011.

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