

Pro Publica, Inc.

Financial Statements

December 31, 2010



O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

Independent Auditors' Report

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, 2010 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 2009 financial statements and, in our report dated May 25, 2010 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 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, 2010, 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 Munns & Dobbins, LLP

New York, New York
May 25, 2011

Pro Publica, Inc.

Statement of Financial Position

December 31, 2010

(With comparative amounts at December 31, 2009)

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 844,288	\$ 530,255
Accounts receivable	2,252	2,059
Contributions receivable, net of discount	1,572,067	862,450
Prepaid expenses	167,933	174,817
Security deposit	3,960	-
Property and equipment, net	<u>582,571</u>	<u>529,776</u>
	<u>\$ 3,173,071</u>	<u>\$ 2,099,357</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 127,048	\$ 118,149
Deferred rent	<u>198,320</u>	<u>217,885</u>
Total Liabilities	<u>325,368</u>	<u>336,034</u>
Net Assets		
Unrestricted	299,792	929,810
Temporarily restricted	<u>2,547,911</u>	<u>833,513</u>
Total Net Assets	<u>2,847,703</u>	<u>1,763,323</u>
	<u>\$ 3,173,071</u>	<u>\$ 2,099,357</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Activities

Year Ended December 31, 2010

(With summarized totals for the year ended December 31, 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
REVENUE AND SUPPORT				
Foundation grants	\$ 6,288,175	\$ 3,092,367	\$ 9,380,542	\$ 6,047,825
Contributions	828,859	-	828,859	307,154
Interest and other income	15,261	-	15,261	12,067
Net assets released from restrictions	<u>1,377,969</u>	<u>(1,377,969)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>8,510,264</u>	<u>1,714,398</u>	<u>10,224,662</u>	<u>6,367,046</u>
EXPENSES				
Program expenses	7,912,382	-	7,912,382	7,276,236
Management and general	949,227	-	949,227	977,033
Fundraising	<u>278,673</u>	<u>-</u>	<u>278,673</u>	<u>151,810</u>
Total Expenses	<u>9,140,282</u>	<u>-</u>	<u>9,140,282</u>	<u>8,405,079</u>
Change in Net Assets	(630,018)	1,714,398	1,084,380	(2,038,033)
NET ASSETS				
Beginning of year	<u>929,810</u>	<u>833,513</u>	<u>1,763,323</u>	<u>3,801,356</u>
End of year	<u>\$ 299,792</u>	<u>\$ 2,547,911</u>	<u>\$ 2,847,703</u>	<u>\$ 1,763,323</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Functional Expenses

Year Ended December 31, 2010

(With summarized totals for the year ended December 31, 2009)

	Program	Management and General	Fundraising	2010 Total	2009 Total
Salaries	\$ 4,942,788	\$ 618,600	\$ 221,077	\$ 5,782,465	\$ 5,267,678
Fringe benefits	549,330	86,340	11,274	646,944	578,728
Payroll taxes	272,616	39,785	8,853	321,254	292,584
Professional development	5,180	464	-	5,644	21,644
Occupancy	559,844	67,405	-	627,249	635,277
Insurance	138,823	22,259	-	161,082	157,291
Freelance and consulting fees	202,726	-	19,500	222,226	313,086
Accounting fees	20,400	5,100	-	25,500	25,500
Legal fees	17,600	1,046	11,633	30,279	93,969
Recruitment	2,697	-	434	3,131	2,617
Travel	364,249	913	4,685	369,847	247,000
Website development and design	205,885	-	-	205,885	140,401
Advertising	5,543	-	46	5,589	16,675
Software and tech support	21,998	26,205	-	48,203	26,617
Public records copies and subscriptions	172,471	2,649	320	175,440	166,044
Telecommunications	110,548	11,295	-	121,843	109,385
Repairs and maintenance	58,171	7,010	-	65,181	66,769
Printing and postage	5,811	702	188	6,701	5,497
Office expense	4,501	1,405	-	5,906	7,831
Meeting expense	12,177	2,380	278	14,835	8,204
Supplies	32,104	7,920	385	40,409	33,882
Equipment lease	10,243	2,117	-	12,360	12,259
Depreciation	193,897	45,552	-	239,449	174,319
Interest expense	-	-	-	-	66
Bank fees	2,780	80	-	2,860	1,756
	<u>\$ 7,912,382</u>	<u>\$ 949,227</u>	<u>\$ 278,673</u>	<u>\$ 9,140,282</u>	<u>\$ 8,405,079</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Cash Flows

Year Ended December 31, 2010

(With comparative amounts for the year ended December 31, 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,084,380	\$ (2,038,033)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	239,449	174,319
Deferred rent	(19,565)	2,189
Changes in operating assets and liabilities		
Accounts receivable	(193)	(1,020)
Contributions receivable	(709,617)	(862,450)
Prepaid expenses	6,884	39,468
Accounts payable and accrued expenses	<u>8,899</u>	<u>18,030</u>
Net Cash from Operating Activities	<u>610,237</u>	<u>(2,667,497)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(292,244)	(130,158)
Security deposit received (paid)	<u>(3,960)</u>	<u>5,000</u>
Net Cash from Investing Activities	<u>(296,204)</u>	<u>(125,158)</u>
Net Change in Cash and Cash Equivalents	314,033	(2,792,655)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>530,255</u>	<u>3,322,910</u>
End of year	<u>\$ 844,288</u>	<u>\$ 530,255</u>

See notes to financial statements

Pro Publica, Inc.

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

Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified as permanently restricted, temporarily restricted or unrestricted. The Organization did not have any permanently restricted net assets as of December 31, 2010.

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.

Pro Publica, Inc.

Notes to Financial Statements

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. Advertising expense for 2010 was \$5,589.

Accounting for Uncertainty in Income Taxes

The Organization's current accounting policy is to provide liabilities for uncertain tax positions when a liability is probable and estimable. Management is not aware of any violation of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income tax. The Organization is not subject to audits by applicable taxing jurisdictions for periods prior to 2007.

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 2009, 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 25, 2011.

Pro Publica, Inc.

Notes to Financial Statements

3. Economic Dependency

Funding from a single donor amounted to 59% of total revenue and support in 2010. 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 at December 31, 2010 of \$1,572,067 includes a pledge of \$660,000 (net of a discount of \$7,633) which is expected to be collected in 2011 and 2012. Payments to be received after December 31, 2011 are discounted to their present value using an interest rate of 4.53% 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, 2010.

6. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Office furniture and fixtures	\$ 518,698	\$ 496,427
Website	273,022	72,441
Computers	<u>346,296</u>	<u>276,904</u>
	1,138,016	845,772
Accumulated depreciation	<u>(555,445)</u>	<u>(315,996)</u>
	<u>\$ 582,571</u>	<u>\$ 529,776</u>

Pro Publica, Inc.

Notes to Financial Statements

7. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, consist of the following:

<u>Purpose/Restriction</u>	<u>2009 Balance</u>	<u>Contributions Received</u>	<u>Assets Released</u>	<u>2010 Balance</u>
Distributed				
Reporting	\$ -	\$ 250,000	\$ (68,274)	\$ 181,726
Fundraising development	833,513	-	(278,674)	554,839
Timing	-	2,842,367	(1,031,021)	1,811,346
	<u>\$ 833,513</u>	<u>\$ 3,092,367</u>	<u>\$ (1,377,969)</u>	<u>\$ 2,547,911</u>

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 leased space for an office in Washington, DC under an informal leasing arrangement on a month to month basis for a portion of the year. The Organization has moved from this location and now has a one year lease agreement for office space in Maryland that expires in 2011. Rent expense for 2010 was approximately \$648,000.

Approximate future minimum annual lease payments at December 31, 2010 are as follows:

2011	\$ 683,000
2012	703,000
2013	<u>120,000</u>
	<u>\$ 1,506,000</u>

The Organization had a letter of credit with a bank of \$194,220 for the New York City lease agreement. The letter of credit is to be renewed annually until the expiration of the lease. On March 30, 2011 this letter was reduced to \$97,110.

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 \$175,937 for 2010.