

Pro Publica, Inc.

Financial Statements

December 31, 2009



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, 2009 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 2008 financial statements and, in our report dated April 29, 2009 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, 2009, 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, 2010

Pro Publica, Inc.

Statement of Financial Position

December 31, 2009

(With comparative amounts at December 31, 2008)

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 530,255	\$ 3,322,910
Accounts receivable	2,059	1,039
Contributions receivable, net of discount	862,450	-
Prepaid expenses	174,817	214,285
Security deposit	-	5,000
Property and equipment, net	<u>529,776</u>	<u>573,937</u>
	<u>\$ 2,099,357</u>	<u>\$ 4,117,171</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 118,149	\$ 100,119
Deferred rent	<u>217,885</u>	<u>215,696</u>
Total Liabilities	<u>336,034</u>	<u>315,815</u>
Net Assets		
Unrestricted	929,810	893,457
Temporarily restricted	<u>833,513</u>	<u>2,907,899</u>
Total Net Assets	<u>1,763,323</u>	<u>3,801,356</u>
	<u>\$ 2,099,357</u>	<u>\$ 4,117,171</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Activities

Year Ended December 31, 2009

(With summarized totals for the year ended December 31, 2008)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2009 Total</u>	<u>2008 Total</u>
REVENUE AND SUPPORT				
Foundation grants	\$ -	\$ 6,047,825	\$ 6,047,825	\$ 8,354,000
Contributions	307,154	-	307,154	190,759
Interest and other income	12,067	-	12,067	27,461
Net assets released from restrictions	<u>8,122,211</u>	<u>(8,122,211)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>8,441,432</u>	<u>(2,074,386)</u>	<u>6,367,046</u>	<u>8,572,220</u>
EXPENSES				
Program expenses	7,276,236	-	7,276,236	5,234,123
Management and general	977,033	-	977,033	902,264
Fundraising	<u>151,810</u>	<u>-</u>	<u>151,810</u>	<u>-</u>
Total Expenses	<u>8,405,079</u>	<u>-</u>	<u>8,405,079</u>	<u>6,136,387</u>
Change in Net Assets	36,353	(2,074,386)	(2,038,033)	2,435,833
NET ASSETS				
Beginning of year	<u>893,457</u>	<u>2,907,899</u>	<u>3,801,356</u>	<u>1,365,523</u>
End of year	<u>\$ 929,810</u>	<u>\$ 833,513</u>	<u>\$ 1,763,323</u>	<u>\$ 3,801,356</u>

Pro Publica, Inc.

Statement of Functional Expenses

Year Ended December 31, 2009

(With summarized totals for the year ended December 31, 2008)

	Program	Management and General	Fundraising	2009 Total	2008 Total
Salaries	\$ 4,537,678	\$ 668,500	\$ 61,500	\$ 5,267,678	\$ 3,542,782
Fringe benefits	485,363	93,365	-	578,728	264,735
Payroll taxes	252,286	40,298	-	292,584	198,214
Professional development	19,189	2,455	-	21,644	9,862
Occupancy	562,769	72,508	-	635,277	609,417
Insurance	142,976	14,315	-	157,291	167,753
Accounting fees	20,400	5,100	-	25,500	25,500
Legal fees	76,231	7,630	10,108	93,969	11,482
Freelance and consulting fees	234,793	793	77,500	313,086	239,841
Recruitment	1,561	-	1,056	2,617	265,838
Travel	246,527	464	9	247,000	195,362
Website development and design	140,128	273	-	140,401	37,431
Advertising	16,675	-	-	16,675	22,954
Software and tech support	23,299	3,318	-	26,617	58,858
Public records copies and subscriptions	165,556	245	243	166,044	121,425
Telecommunications	98,905	10,480	-	109,385	79,108
Repairs and maintenance	58,785	7,984	-	66,769	52,887
Printing and postage	4,057	1,336	104	5,497	7,083
Office expense	6,980	851	-	7,831	5,225
Meeting expense	2,914	4,016	1,274	8,204	12,185
Supplies	30,668	3,198	16	33,882	53,608
Equipment lease	10,696	1,563	-	12,259	10,536
Depreciation	137,378	36,941	-	174,319	141,677
Interest expense	-	66	-	66	1,212
Bank fees	422	1,334	-	1,756	1,412
	<u>\$ 7,276,236</u>	<u>\$ 977,033</u>	<u>\$ 151,810</u>	<u>\$ 8,405,079</u>	<u>\$ 6,136,387</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Cash Flows

Year Ended December 31, 2009

(With summarized totals for the year ended December 31, 2008)

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,038,033)	\$ 2,435,833
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	174,319	141,677
Deferred rent	2,189	164,606
Changes in operating assets and liabilities		
Accounts receivable	(1,020)	35,665
Contributions receivable	(862,450)	-
Prepaid expenses	39,468	(1,011)
Accounts payable	<u>18,030</u>	<u>(231,247)</u>
Net Cash from Operating Activities	<u>(2,667,497)</u>	<u>2,545,523</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(130,158)	(254,530)
Security deposit	<u>5,000</u>	<u>-</u>
Net Cash from Investing Activities	<u>(125,158)</u>	<u>(254,530)</u>
Net Change in Cash and Cash Equivalents	(2,792,655)	2,290,993
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>3,322,910</u>	<u>1,031,917</u>
End of year	<u>\$ 530,255</u>	<u>\$ 3,322,910</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Disposal of fully depreciated fixed assets	\$ -	\$ 5,215

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, 2009.

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.

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 2009 was \$16,675.

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 no longer subject to audits by applicable taxing jurisdictions for periods prior to 2007, the year of formation.

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 the year ended December 31, 2008, 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, 2010.

Pro Publica, Inc.

Notes to Financial Statements

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

Reclassification

Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

3. Economic Dependency

Funding from a single donor amounted to 71% of total revenue and support in 2009. 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, 2009 of \$871,662 includes a pledge of \$619,537 (net of a discount of \$15,463) which is expected to be received in 2010 and 2011. Payments to be received after December 31, 2010 are discounted to their present value using an interest rate of 5.25% and are deemed to be fully collectible by management. Thus, no allowance has been provided. An amount totaling \$994,537 has been recognized as contribution revenue in 2009.

6. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2009</u>	<u>2008</u>
Office furniture and fixtures	\$ 496,427	\$ 480,898
Website	72,441	-
Computers	<u>276,904</u>	<u>234,716</u>
	845,772	715,614
Accumulated depreciation	<u>(315,996)</u>	<u>(141,677)</u>
	<u>\$ 529,776</u>	<u>\$ 573,937</u>

Pro Publica, Inc.

Notes to Financial Statements

7. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2009 consist of the following:

<u>Purpose/Restriction</u>	<u>Balance at December 31, 2008</u>	<u>Contributions Received</u>	<u>Assets Released</u>	<u>Balance at December 31, 2009</u>
Fundraising development	\$ -	\$ 985,325	\$ (151,812)	\$ 833,513
Investigative governance prizes	25,596	-	(25,596)	-
Timing	<u>2,882,303</u>	<u>5,062,500</u>	<u>(7,944,803)</u>	<u>-</u>
	<u>\$ 2,907,899</u>	<u>\$ 6,047,825</u>	<u>\$ (8,122,211)</u>	<u>\$ 833,513</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. Approximate future minimum lease commitments under this lease agreement are as follows:

2010	\$ 623,394
2011	682,846
2012	703,331
2013	<u>120,437</u>
	<u>\$ 2,130,008</u>

The Organization had a letter of credit obligation with a bank of \$194,220 for the lease agreement. The letter of credit is to be renewed annually until the expiration of the lease. On December 1, 2009 this letter was reduced to \$97,110 for the remainder of the term.

The Organization leases space for its office in Washington, DC under an informal leasing arrangement on a month to month basis.

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 \$153,363 for 2009.