

**Pro Publica, Inc.**

Financial Statements

December 31, 2008



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

## Independent Auditors' Report

### Board of Directors Pro Publica, Inc.

We have audited the accompanying statements of financial position of Pro Publica, Inc. (the "Organization") as of December 31, 2008 and the related statements of activities, 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 2007 financial statements and, in our report dated July 8, 2008 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, 2008, 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  
April 29, 2009

**Pro Publica, Inc.**

Statement of Financial Position

December 31, 2008

(With comparative amounts at December 31, 2007)

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,322,910	\$ 1,031,917
Accounts receivable	1,039	36,704
Prepaid expenses	214,285	213,274
Security deposit	5,000	5,000
Property and equipment, net	<u>573,937</u>	<u>461,084</u>
	<u>\$ 4,117,171</u>	<u>\$ 1,747,979</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 100,119	\$ 331,366
Deferred rent	<u>215,696</u>	<u>51,090</u>
Total Liabilities	<u>315,815</u>	<u>382,456</u>
Net Assets		
Unrestricted	893,457	661,173
Temporarily restricted	<u>2,907,899</u>	<u>704,350</u>
Total Net Assets	<u>3,801,356</u>	<u>1,365,523</u>
	<u>\$ 4,117,171</u>	<u>\$ 1,747,979</u>

See notes to financial statements

**Pro Publica, Inc.**

Statement of Activities

Year Ended December 31, 2008

(With summarized totals for the period ended December 31, 2007)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2008 Total</u>	<u>2007 Total</u>
<b>REVENUE AND SUPPORT</b>				
Foundation grants	\$ -	\$ 8,354,000	\$ 8,354,000	\$ 1,250,000
Contributions	190,759	-	190,759	200,000
Interest and other income	27,461	-	27,461	89
Net assets released from restrictions	<u>6,150,451</u>	<u>(6,150,451)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>6,368,671</u>	<u>2,203,549</u>	<u>8,572,220</u>	<u>1,450,089</u>
<b>EXPENSES</b>				
Program expenses	\$ 5,234,123	\$ -	\$ 5,234,123	\$ 8,451
Management and general	<u>902,264</u>	<u>-</u>	<u>902,264</u>	<u>76,115</u>
Total Expenses	<u>6,136,387</u>	<u>-</u>	<u>6,136,387</u>	<u>84,566</u>
Change in Net Assets	232,284	2,203,549	2,435,833	1,365,523
<b>NET ASSETS</b>				
Beginning of year	<u>661,173</u>	<u>704,350</u>	<u>1,365,523</u>	<u>-</u>
End of year	<u>\$ 893,457</u>	<u>\$ 2,907,899</u>	<u>\$ 3,801,356</u>	<u>\$ 1,365,523</u>

See notes to financial statements

**Pro Publica, Inc.**

Statement of Functional Expenses

Year Ended December 31, 2008

(With summarized totals for the period ended December 31, 2007)

	<u>Program</u>	<u>Management and General</u>	<u>2008 Total</u>	<u>2007 Total</u>
Salaries	\$ 3,156,832	\$ 385,950	\$ 3,542,782	\$ -
Fringe benefits	187,705	77,030	264,735	-
Payroll taxes	178,110	20,104	198,214	-
Occupancy	385,863	223,554	609,417	51,090
Insurance	150,065	17,688	167,753	3,740
Accounting fees	20,400	5,100	25,500	9,000
Legal fees	-	11,482	11,482	11,633
Freelance and consulting fees	237,227	2,614	239,841	-
Recruitment	264,088	1,750	265,838	1,434
Travel	194,950	412	195,362	854
Website development and design	30,768	-	30,768	4,200
Software and tech support	74,416	14,059	88,475	-
Public records copies and subscriptions	125,708	5,579	131,287	500
Telecommunications	61,460	17,648	79,108	1,092
Repairs and maintenance	26,261	26,626	52,887	-
Printing and postage	5,239	1,844	7,083	-
Office expense	2,872	2,353	5,225	-
Meeting expense	2,567	9,618	12,185	-
Supplies	32,322	21,286	53,608	-
Equipment lease	5,344	5,192	10,536	-
Depreciation	91,926	49,751	141,677	-
Interest expense	-	1,212	1,212	-
Bank fees	-	1,412	1,412	1,023
	<u>\$ 5,234,123</u>	<u>\$ 902,264</u>	<u>\$ 6,136,387</u>	<u>\$ 84,566</u>

See notes to financial statements

**Pro Publica, Inc.**

Statement of Cash Flows

Year Ended December 31, 2008

(With summarized totals for the period ended December 31, 2007)

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,435,833	\$ 1,365,523
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	141,677	-
Deferred rent	164,606	51,090
Changes in operating assets and liabilities		
Accounts receivable	35,665	(36,704)
Prepaid expenses	(1,011)	(213,274)
Accounts payable	<u>(231,247)</u>	<u>331,366</u>
Net Cash from Operating Activities	<u>2,545,523</u>	<u>1,498,001</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(254,530)	(461,084)
Security deposit	<u>-</u>	<u>(5,000)</u>
Net Cash from Investing Activities	<u>(254,530)</u>	<u>(466,084)</u>
Net Change in Cash and Cash Equivalents	2,290,993	1,031,917
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>1,031,917</u>	<u>-</u>
End of year	<u>\$ 3,322,910</u>	<u>\$ 1,031,917</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Non cash unrestricted activities		
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, 2008.

##### *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 recognized as revenue when an unconditional promise to give is made and the gift is subject to reasonable valuation. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor or raised for a specific purpose.

##### *Accounting for Uncertainty in Income Taxes*

The Organization's accounting policy is to provide liabilities for uncertain tax positions when a liability is probable and estimable. Management of the Organization 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.

##### *Summarized 2007 Financial Data*

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, 2007, from which the summarized information was derived.

#### 3. 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.

#### 4. Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2008</u>	<u>2007</u>
Office furniture and fixtures	\$ 480,898	\$ 356,000
Computers	<u>234,716</u>	<u>105,084</u>
	715,614	461,084
Accumulated depreciation	<u>(141,677)</u>	<u>-</u>
	<u>\$ 573,937</u>	<u>\$ 461,084</u>

Property and equipment purchased during 2007 was placed in service on January 1, 2008 and therefore no depreciation expense was recorded in 2007.



## Pro Publica, Inc.

### Notes to Financial Statements

#### 5. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2008 consist of the following:

<u>Purpose/Restriction</u>	<u>Balance at December 31, 2007</u>	<u>Contributions Received</u>	<u>Assets Released</u>	<u>Balance at December 31, 2008</u>
Web site development and design	\$ -	\$ 250,000	\$ (250,000)	\$ -
Investigative governance prizes	-	49,000	(23,404)	25,596
Timing	<u>704,350</u>	<u>8,055,000</u>	<u>(5,877,047)</u>	<u>2,882,303</u>
	<u>\$ 704,350</u>	<u>\$ 8,354,000</u>	<u>\$ (6,150,451)</u>	<u>\$ 2,907,899</u>

#### 6. Economic Dependency

Funding from the Sandler Foundation amounted to 93% of total revenue and support in 2008. The Organization is economically dependent on these funds to continue operations.

#### 7. 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:

2009	\$ 601,640
2010	623,394
2011	682,846
2012	703,331
2013	<u>120,437</u>
	<u>\$ 2,731,648</u>

The Organization has a letter of credit obligation with a bank of \$194,220 as guarantee for the lease agreement. The letter of credit is to be renewed annually until the expiration of the lease. Following two years of rent payments, providing the Organization is not and has not been in default under the terms and conditions of the lease, the Organization will be permitted to reduce the letter of credit to \$97,110 for the remainder of the term.

In addition, the Organization leases space for its office in Washington, DC under informal leasing arrangements on a month to month basis.