

Pro Publica, Inc.

Financial Statements

December 31, 2013

Independent Auditors' Report

Board of Directors Pro Publica, Inc.

We have audited the accompanying financial statements of Pro Publica, Inc. which comprise the statement of financial position as of December 31, 2013, 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.

Board of Directors

Pro Publica, Inc.

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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, 2013, 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.

Other Matter

Report on Summarized Comparative Information

We have previously audited the Organization's December 31, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 16, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

O'Connor Davies, LLP

May 16, 2014

Pro Publica, Inc.

Statement of Financial Position
December 31, 2013
(with comparative amounts at December 31, 2012)

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 3,086,745	\$ 1,873,557
Accounts receivable	1,692	1,012
Contributions receivable, net	4,506,444	2,192,658
Prepaid expenses	105,616	112,851
Investments	-	24,437
Security deposit	3,960	5,617
Property and equipment, net	<u>234,012</u>	<u>319,311</u>
	<u>\$ 7,938,469</u>	<u>\$ 4,529,443</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 95,446	\$ 99,278
Deferred rent	<u>-</u>	<u>19,800</u>
Total Liabilities	<u>95,446</u>	<u>119,078</u>
Net Assets		
Unrestricted	3,593,023	1,680,365
Temporarily restricted	<u>4,250,000</u>	<u>2,730,000</u>
Total Net Assets	<u>7,843,023</u>	<u>4,410,365</u>
	<u>\$ 7,938,469</u>	<u>\$ 4,529,443</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Activities
Year Ended December 31, 2013
(with summarized totals for the year ended December 31, 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013 Total</u>	<u>2012 Total</u>
SUPPORT AND REVENUE				
Foundation grants	\$ 5,914,343	\$ 4,893,000	\$ 10,807,343	\$ 7,883,544
Contributions	2,869,698	-	2,869,698	3,036,475
Interest and other income	88,426	-	88,426	35,963
Net assets released from restrictions	<u>3,373,000</u>	<u>(3,373,000)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>12,245,467</u>	<u>1,520,000</u>	<u>13,765,467</u>	<u>10,955,982</u>
EXPENSES				
Program	8,711,628	-	8,711,628	8,357,078
Management and general	1,224,787	-	1,224,787	1,097,682
Fundraising	<u>396,394</u>	<u>-</u>	<u>396,394</u>	<u>429,690</u>
Total Expenses	<u>10,332,809</u>	<u>-</u>	<u>10,332,809</u>	<u>9,884,450</u>
Change in Net Assets	1,912,658	1,520,000	3,432,658	1,071,532
NET ASSETS				
Beginning of year	<u>1,680,365</u>	<u>2,730,000</u>	<u>4,410,365</u>	<u>3,338,833</u>
End of year	<u>\$ 3,593,023</u>	<u>\$ 4,250,000</u>	<u>\$ 7,843,023</u>	<u>\$ 4,410,365</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Functional Expenses
 Year Ended December 31, 2013
 (with summarized totals for the year ended December 31, 2012)

	Program	Management and General	Fundraising	2013 Total	2012 Total
Staffing	\$ 6,563,738	\$ 1,010,732	\$ 333,008	\$ 7,907,478	\$ 7,528,747
Professional development	22,284	5,113	-	\$ 27,397	14,915
Occupancy	676,902	74,939	-	751,841	643,214
Insurance	85,820	11,832	-	97,652	92,827
Freelance and consulting fees	100,394	-	-	100,394	130,036
Accounting fees	-	25,200	2,800	28,000	28,000
Legal fees	3,703	17,313	12,928	33,944	47,280
Recruitment	19,875	4,100	4,100	28,075	33,871
Travel	410,329	978	23,985	435,292	403,359
Website development and design	202,010	499	4,352	206,861	191,517
Advertising	28,121	2,526	2,767	33,414	28,683
Software and tech support	44,619	13,864	1,961	60,444	56,327
Public records copies and subscriptions	133,924	1,508	1,446	136,878	145,166
Telecommunications	97,306	10,277	-	107,583	108,902
Repairs and maintenance	58,392	6,679	-	65,071	56,605
Printing and postage	4,448	63	251	4,762	5,633
Meeting expense	24,560	7,326	1,620	33,506	22,732
Supplies	19,910	3,767	-	23,677	28,573
Equipment lease	11,500	1,274	-	12,774	11,603
Depreciation	201,656	21,813	-	223,469	299,608
Unrelated business income tax expense	-	3,516	-	3,516	-
Credit card and bank fees	2,137	1,468	7,176	10,781	6,852
	<u>\$ 8,711,628</u>	<u>\$ 1,224,787</u>	<u>\$ 396,394</u>	<u>\$ 10,332,809</u>	<u>\$ 9,884,450</u>

See notes to financial statements

Pro Publica, Inc.

Statement of Cash Flows
Year Ended December 31, 2013
(with comparative amounts for the year ended December 31, 2012)

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,432,658	\$ 1,071,532
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	223,469	299,608
Amortization of rent allowance	(19,800)	(99,503)
Donated stock	(84,220)	(24,437)
Changes in operating assets and liabilities		
Accounts receivable	(680)	513
Contributions receivable	(2,313,785)	(684,978)
Prepaid expenses	7,235	(40,801)
Accounts payable and accrued expenses	(3,832)	(33,737)
Net Cash from Operating Activities	<u>1,241,045</u>	<u>488,197</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(138,171)	(129,914)
Proceeds from sale of investments	108,657	-
Security deposit received (paid)	<u>1,657</u>	<u>(1,657)</u>
Net Cash from Investing Activities	<u>(27,857)</u>	<u>(131,571)</u>
Net Change in Cash and Cash Equivalents	1,213,188	356,626
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,873,557</u>	<u>1,516,931</u>
End of year	<u>\$ 3,086,745</u>	<u>\$ 1,873,557</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Unrelated business income taxes paid	\$ 3,516	\$ -

See notes to financial statements

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2013

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

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which requires management to make 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 the reported amounts of revenues and expenses during the reporting period. Accordingly 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.

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2013

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.

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. Marketable securities contributed are recorded at the fair value at the date of contribution. 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 2010.

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2013

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 2012, 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, 2014.

3. Contributions Receivable

Unconditional pledges are included in the financial statements as contributions receivable and revenue, net, after discounting at 3.34% to the present value of expected future cash flows and are deemed to be fully collectible by management. Contributions to be received after one year are discounted at an appropriate interest rate commensurate with the risk involved.

Management expects contributions receivable at December 31, 2013 to be realized in the following periods:

Due within one year	\$ 4,139,195
Due within two to three years	380,000
Discount to present value	<u>(12,751)</u>
	<u>\$ 4,506,444</u>

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. Contributions receivable are from limited sources, subjecting the Organization to a concentration of credit risk.

Pro Publica, Inc.

Notes to Financial Statements
December 31, 2013

5. Property and Equipment

Property and equipment consist of the following at December 31:

	2013	2012
Office furniture and fixtures	\$ 523,805	\$ 520,245
Website	487,254	425,385
Computers	571,040	498,299
	1,582,099	1,443,929
Accumulated depreciation	(1,348,087)	(1,124,618)
	\$ 234,012	\$ 319,311

6. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets for 2013 are as follows:

Purpose/Restriction	Beginning Balance	Contributions Received	Assets Released	Ending Balance
News applications	\$ 1,670,000	\$ -	\$ (660,000)	\$ 1,010,000
Environmental reporting	-	100,000	(58,333)	41,667
Timing	1,060,000	4,793,000	(2,654,667)	3,198,333
	\$ 2,730,000	\$ 4,893,000	\$ (3,373,000)	\$ 4,250,000

7. Economic Dependency

Funding from a single donor amounted to 29% of total revenue and support in 2013.

8. 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 which is renewed annually for this lease agreement. The Organization leases space for an office in Maryland that expires in June 2014. Rent expense for all office space for 2013 was approximately \$751,841. The Organization leases a copier for its NYC office that expires in 2016. Copier expense for the year ending December 31, 2013 amounted to \$12,774. Approximate future minimum annual lease payments at December 31, 2013 are as follows:

2014	\$ 758,644
2015	140,252
2016	11,440
	\$ 910,336

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Notes to Financial Statements
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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 \$12,750. The Organization's contributions amounted to \$261,983 for 2013.

10. Unrelated Business Income Tax

The Organization is subject to tax on its unrelated business income which is earned through advertising in its newsletter and web site. These taxes amounted to approximately \$3,516 in 2013.

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