

**FINANCIAL STATEMENTS**



**FOR THE YEAR ENDED DECEMBER 31, 2011  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2010**

**PROJECT ON GOVERNMENT OVERSIGHT, INC.**

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**GELMAN, ROSENBERG & FREEDMAN**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Project on Government Oversight, Inc.  
Washington, D.C.

We have audited the accompanying statement of financial position of the Project on Government Oversight, Inc. (POGO) as of December 31, 2011, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of POGO'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 POGO's 2010 financial statements and, in our report dated March 29, 2011, we expressed an unqualified opinion on those 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 POGO's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 POGO as of December 31, 2011, and its change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Gelman Rosenberg & Freedman*

May 1, 2012

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

## PROJECT ON GOVERNMENT OVERSIGHT, INC.

**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2011**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010**

## ASSETS

	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,158,596	\$ 2,021,691
Investments (Notes 2 and 10)	934,506	971,229
Grants receivable	1,522,688	625,969
Tenant improvement allowance receivable (Note 4)	48,143	-
Inventory	950	1,047
Prepaid expenses	<u>97,718</u>	<u>86,555</u>
Total current assets	<u>3,762,601</u>	<u>3,706,491</u>
<b>FIXED ASSETS, NET (Note 3)</b>	<u>71,717</u>	<u>13,818</u>
<b>OTHER ASSETS</b>		
Deposits	22,690	12,418
Grants receivable, net of current portion	<u>-</u>	<u>448,113</u>
Total other assets	<u>22,690</u>	<u>460,531</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,857,008</u></b>	<b><u>\$ 4,180,840</u></b>

## LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 55,043	\$ 25,749
Deferred rent (Note 4)	-	7,908
Accrued SEP contribution (Note 7)	47,239	60,118
Accrued contingent litigation judgment (Note 9)	<u>120,000</u>	<u>120,000</u>
Total current liabilities	<u>222,282</u>	<u>213,775</u>
<b>LONG-TERM LIABILITIES</b>		
Deferred tenant improvement allowance (Note 4)	<u>48,143</u>	<u>-</u>
Total liabilities	<u>270,425</u>	<u>213,775</u>
<b>NET ASSETS</b>		
Unrestricted	1,900,973	2,040,941
Temporarily restricted (Note 5)	<u>1,685,610</u>	<u>1,926,124</u>
Total net assets	<u>3,586,583</u>	<u>3,967,065</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 3,857,008</u></b>	<b><u>\$ 4,180,840</u></b>

See accompanying notes to financial statements.

## PROJECT ON GOVERNMENT OVERSIGHT, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010**

	<u>2011</u>			<u>2010</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
<b>REVENUE</b>				
Contributions	\$ 81,122	\$ 10,549	\$ 91,671	\$ 97,198
Grants	205,686	1,546,887	1,752,573	2,048,913
Interest and dividend income	21,948	-	21,948	27,293
Unrealized (loss) gain on investments	(55,915)	-	(55,915)	118,752
Contributed services	58,950	-	58,950	57,960
Publications and other income	219	-	219	345
Fundraising event	59,400	-	59,400	7,335
Net assets released from donor restrictions (Note 6)	<u>1,797,950</u>	<u>(1,797,950)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>2,169,360</u>	<u>(240,514)</u>	<u>1,928,846</u>	<u>2,357,796</u>
<b>EXPENSES</b>				
Program Services:				
Nuclear Weapons Security Investigations	145,488	-	145,488	184,152
Nuclear Power Plant Investigations	-	-	-	14,155
Contract Oversight	260,342	-	260,342	179,260
Inherently Governmental Functions	158,463	-	158,463	100,592
Emerging Programs	176,908	-	176,908	138,039
Defense and National Security	197,794	-	197,794	113,643
Energy and Natural Resources Investigations	76,815	-	76,815	86,958
Whistleblower Protections	110,397	-	110,397	82,208
Financial Sector Oversight	91,688	-	91,688	81,892
Public Health Investigations	171,092	-	171,092	81,467
Government Accountability	353,916	-	353,916	-
Government Oversight	-	-	-	80,297
Government Corruption	-	-	-	71,807
Inspector General	53,118	-	53,118	64,796
Government Secrecy	-	-	-	46,818
Congressional Oversight Training	44,738	-	44,738	40,079
Direct Lobbying	<u>37,947</u>	<u>-</u>	<u>37,947</u>	<u>40,961</u>
Total program services	<u>1,878,706</u>	<u>-</u>	<u>1,878,706</u>	<u>1,407,124</u>
Supporting Services:				
General and Administrative	161,542	-	161,542	121,790
Development	<u>269,080</u>	<u>-</u>	<u>269,080</u>	<u>206,405</u>
Total supporting services	<u>430,622</u>	<u>-</u>	<u>430,622</u>	<u>328,195</u>
Total expenses	<u>2,309,328</u>	<u>-</u>	<u>2,309,328</u>	<u>1,735,319</u>
Change in net assets	(139,968)	(240,514)	(380,482)	622,477
Net assets at beginning of year	<u>2,040,941</u>	<u>1,926,124</u>	<u>3,967,065</u>	<u>3,344,588</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 1,900,973</u></b>	<b><u>\$ 1,685,610</u></b>	<b><u>\$ 3,586,583</u></b>	<b><u>\$ 3,967,065</u></b>

See accompanying notes to financial statements.

**PROJECT ON GOVERNMENT OVERSIGHT, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2011  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010**

	2011			
	Program Services			
	Nuclear Weapons Security Investigations	Contract Oversight	Inherently Governmental Functions	Emerging Programs
Personnel Costs:				
Salaries	\$ 84,001	\$ 160,108	\$ 90,755	\$ 113,975
Employee benefits (Notes 7 and 8)	7,865	17,807	10,286	12,646
Payroll taxes	6,365	12,962	7,092	8,811
 Total personnel costs	 98,231	 190,877	 108,133	 135,432
 Rent (Note 4)	 7,707	 18,284	 9,615	 12,942
Web / internet	7,527	19,024	16,350	14,523
Consultant fees	23,077	9,913	-	-
Printing, copying and publishing	1,251	4,358	1,849	2,143
Accounting fees	-	-	-	-
Research materials and documents	754	1,980	1,095	1,442
Telephone	430	995	585	714
Travel	311	734	367	426
Outreach	3,351	7,274	3,732	4,847
Depreciation and amortization	608	1,223	672	836
Technology	179	297	145	204
Office supplies	208	519	284	390
Membership and professional growth	170	993	262	334
Postage	619	1,271	796	842
Insurance	352	797	463	566
Filing fees	-	-	-	-
Bank and payroll fees	-	-	-	-
Legal fees	-	-	-	-
Maintenance, repairs and miscellaneous	436	1,029	603	765
Meeting expenses	246	703	424	446
Equipment and equipment rental	31	71	38	56
In-kind contributions - services	-	-	13,050	-
Move expense	-	-	-	-
Fundraising events	-	-	-	-
Grant expense	-	-	-	-
Unsalable Inventory	-	-	-	-
 <b>TOTAL</b>	 <b>\$ 145,488</b>	 <b>\$ 260,342</b>	 <b>\$ 158,463</b>	 <b>\$ 176,908</b>

See accompanying notes to financial statements.

<b>Defense and National Security</b>	<b>Energy and Natural Resources Investigations</b>	<b>Whistleblower Protections</b>	<b>Financial Sector Oversight</b>	<b>Public Health Investigations</b>
\$ 138,863	\$ 46,688	\$ 69,189	\$ 58,526	\$ 78,589
12,376	5,871	7,288	5,950	9,028
10,505	3,675	5,205	4,461	6,109
161,744	56,234	81,682	68,937	93,726
9,348	7,302	8,018	5,565	9,666
12,039	7,076	7,985	9,330	9,760
-	-	-	-	-
2,214	1,017	1,208	1,042	1,613
-	-	-	-	-
1,221	705	795	633	1,031
691	328	419	334	527
330	263	1,421	1,157	1,847
5,509	1,996	5,092	2,170	3,816
1,010	344	497	430	577
206	46	129	87	100
257	206	214	151	293
238	170	188	532	213
1,296	258	596	475	680
579	251	339	269	423
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
636	378	440	348	546
440	211	1,341	204	336
36	30	33	24	38
-	-	-	-	45,900
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<b>\$ 197,794</b>	<b>\$ 76,815</b>	<b>\$ 110,397</b>	<b>\$ 91,688</b>	<b>\$ 171,092</b>

See accompanying notes to financial statements.

**PROJECT ON GOVERNMENT OVERSIGHT, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2011  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010**

	2011 (Continued)				
	Program Services (Continued)				
	Government Accountability	Inspector General	Congressional Oversight Training	Direct Lobbying	Total Program Services
Personnel Costs:					
Salaries	\$ 168,931	\$ 31,011	\$ 31,455	\$ 23,136	\$ 1,095,227
Employee benefits (Notes 7 and 8)	16,970	4,151	2,517	2,797	115,552
Payroll taxes	13,026	2,391	1,870	1,855	84,327
Total personnel costs	198,927	37,553	35,842	27,788	1,295,106
Rent (Note 4)	16,579	5,494	2,188	3,363	116,071
Web / internet	17,311	4,591	2,979	3,379	131,874
Consultant fees	50,000	-	-	-	82,990
Printing, copying and publishing	2,864	740	529	453	21,281
Accounting fees	-	-	-	-	-
Research materials and documents	1,909	476	260	311	12,612
Telephone	899	275	132	169	6,498
Travel	2,607	112	204	168	9,947
Outreach	6,107	2,285	751	1,258	48,188
Depreciation and amortization	1,231	228	177	178	8,011
Technology	250	98	29	86	1,856
Office supplies	484	135	69	85	3,295
Membership and professional growth	371	114	284	85	3,954
Postage	1,107	356	135	208	8,639
Insurance	710	228	102	138	5,217
Filing fees	-	-	-	-	-
Bank and payroll fees	-	-	-	-	-
Legal fees	93	-	-	-	93
Maintenance, repairs and miscellaneous	950	282	140	180	6,733
Meeting expenses	1,451	129	908	84	6,923
Equipment and equipment rental	66	22	9	14	468
In-kind contributions - services	-	-	-	-	58,950
Move expense	-	-	-	-	-
Fundraising events	-	-	-	-	-
Grant expense	50,000	-	-	-	50,000
Unsalable Inventory	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 353,916</b>	<b>\$ 53,118</b>	<b>\$ 44,738</b>	<b>\$ 37,947</b>	<b>\$ 1,878,706</b>

See accompanying notes to financial statements.



					<b>2010</b>	
<b>Supporting Services</b>						
<b>General and Administrative</b>	<b>Development</b>	<b>Total Supporting Services</b>		<b>Total Expenses</b>	<b>Total Expenses</b>	
\$ 83,829	\$ 113,892	\$ 197,721	\$ 1,292,948	\$ 1,009,726		
6,018	12,271	18,289	133,841	141,779		
6,397	8,801	15,198	99,525	78,521		
96,244	134,964	231,208	1,526,314	1,230,026		
7,528	12,730	20,258	136,329	162,427		
361	13,393	13,754	145,628	64,386		
11,000	-	11,000	93,990	50,817		
747	17,518	18,265	39,546	16,541		
18,155	-	18,155	18,155	17,632		
361	-	361	12,973	12,067		
399	678	1,077	7,575	6,774		
500	2,583	3,083	13,030	11,559		
1,006	10,609	11,615	59,803	21,439		
609	835	1,444	9,455	5,733		
(103)	140	37	1,893	6,539		
1,705	385	2,090	5,385	8,186		
185	214	399	4,353	4,666		
175	4,295	4,470	13,109	8,693		
3,378	536	3,914	9,131	7,563		
-	4,793	4,793	4,793	5,040		
3,788	-	3,788	3,788	3,160		
10,144	-	10,144	10,237	9,068		
993	726	1,719	8,452	2,486		
299	126	425	7,348	12,649		
69	52	121	589	484		
-	-	-	58,950	57,960		
3,999	-	3,999	3,999	-		
-	64,503	64,503	64,503	-		
-	-	-	50,000	-		
-	-	-	-	9,424		
<b>\$ 161,542</b>	<b>\$ 269,080</b>	<b>\$ 430,622</b>	<b>\$ 2,309,328</b>	<b>\$ 1,735,319</b>		

See accompanying notes to financial statements.

## PROJECT ON GOVERNMENT OVERSIGHT, INC.

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (380,482)	\$ 622,477
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	9,455	5,733
Unrealized loss (gain) on investments	55,915	(118,752)
(Increase) decrease in:		
Grants receivable	(448,606)	(284,082)
Inventory	97	9,558
Prepaid expenses	(11,163)	(25,506)
Increase (decrease) in:		
Accounts payable and accrued liabilities	29,294	2,161
Deferred rent	(7,908)	(5,419)
Accrued SEP contribution	<u>(12,879)</u>	<u>8,668</u>
Net cash (used) provided by operating activities	<u>(766,277)</u>	<u>214,838</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of fixed assets	(67,354)	(8,336)
Purchases of investments	(19,192)	(317,174)
Deposit paid	<u>(10,272)</u>	<u>-</u>
Net cash used by investing activities	<u>(96,818)</u>	<u>(325,510)</u>
Net decrease in cash and cash equivalents	(863,095)	(110,672)
Cash and cash equivalents at beginning of year	<u>2,021,691</u>	<u>2,132,363</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 1,158,596</u></b>	<b><u>\$ 2,021,691</u></b>
<b>SCHEDULE OF NONCASH FINANCING TRANSACTIONS</b>		
Tenant Improvement Allowance Receivable and Deferred Tenant Improvement Allowance	<b><u>\$ 48,143</u></b>	<b><u>\$ -</u></b>

See accompanying notes to financial statements.

## PROJECT ON GOVERNMENT OVERSIGHT, INC.

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

##### Organization -

The Project on Government Oversight, Inc. (POGO) is a non-profit organization, incorporated under the laws of the District of Columbia and located in the United States of America. Founded in 1981, POGO is a nonpartisan independent watchdog that champions good government reforms. POGO's investigations into corruption, misconduct, and conflicts of interest achieve a more effective, accountable, open, and ethical federal government. These activities are funded primarily through contributions from foundations.

##### Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with POGO's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

##### Cash and cash equivalents -

POGO considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) - insured depository institutions (the "Dodd-Frank Deposit Insurance Provision"). POGO maintains a portion of its cash balances at financial institutions in noninterest-bearing accounts; thereby, all of these cash balances are protected by the FDIC under this Act.

At times during the year, POGO maintains cash balances in interest bearing accounts at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

##### Investments -

Investments are recorded at their readily determinable fair value.

##### Grants receivable -

Grants receivable approximate fair value. Management considers all amounts to be fully collectible within one year. Accordingly, an allowance for doubtful accounts has not been established.

##### Fixed assets -

Fixed assets are stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to seven years, with no salvage value. Leasehold improvements are amortized over the life of the lease. POGO capitalizes all property and equipment with a cost of \$1,000 or more. Expenditures for major maintenance and repairs are capitalized and minor maintenance and repairs are expensed when they are incurred.

PROJECT ON GOVERNMENT OVERSIGHT, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**  
**(Continued)**

Income taxes -

POGO is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. POGO is not a private foundation.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the year ended December 31, 2011, POGO has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements. The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Inventory -

Inventory consisted of publications, which are recorded at the lower of cost or market value using the first-in, first-out method of inventory.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of POGO and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of POGO and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Contributed services -

Contributed services consisted of contributed investigative research services. Contributed services are recorded at their fair market value as of the date of the gift.

PROJECT ON GOVERNMENT OVERSIGHT, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION  
(Continued)

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

POGO invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Fair value measurements -

POGO adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. POGO accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

2. INVESTMENTS

Investments consisted of the following at December 31, 2011:

	<u>Cost</u>	<u>Market Value</u>
Vanguard Mutual Funds:		
Large-Cap Index Fund Admiral Shares	\$ 243,822	\$ 343,240
Small-Cap Value Index Fund	195,968	289,366
Global Equity Fund	<u>267,718</u>	<u>301,900</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 707,508</u></b>	<b><u>\$ 934,506</u></b>

PROJECT ON GOVERNMENT OVERSIGHT, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

3. **FIXED ASSETS**

Fixed assets consisted of the following at December 31, 2011:

Furniture and computers	\$ 101,659
Leasehold improvements	<u>37,536</u>
Total fixed assets	139,195
Less: Accumulated depreciation and amortization	<u>(67,478)</u>
<b>FIXED ASSETS, NET</b>	<b><u>\$ 71,717</u></b>

4. **LEASE COMMITMENTS AND RELATED PARTY**

POGO leases office space in the District of Columbia, under a non-cancelable operating lease that was extended through December 31, 2011. In June 2011, POGO amended this lease for new space in the same building for an additional 10 years commencing January 1, 2012. Base rent is \$272,281 per year, plus a proportionate share of expenses, increasing by a factor of 2.5% per annum except for a \$2 per square foot increase at the beginning of the sixth lease year in lieu of the 2.5% annual increase. The amended lease provides a for tenant improvement allowance for the build-out of the new space, office moving expenses and office equipment and the amount paid is charged to "deferred tenant improvement allowance" in the accompanying Statement of Financial Position.

The total amount of rental payments due over the life of the lease term is charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is charged to "deferred rent" in the accompanying Statement of Financial Position.

Rent expense for the year ended December 31, 2011 totaled \$136,329, which included \$153,525 from straight-line rent expense, including other leasing, operating and real estate tax expenses, less \$17,196 of rental income from a sublessor.

Total future minimum lease payments required under the terms of this lease as of December 31, 2011 are as follows:

**Year Ended December 31,**

2012	\$ 272,281
2013	279,088
2014	286,065
2015	293,217
2016	300,547
Thereafter	<u>1,649,590</u>
	<b><u>\$3,080,788</u></b>

POGO renewed its annual sublease to a Board member for \$1,250 per month. At the end of 2012, POGO entered a one year sublease with a related organization commencing January 1, 2011. Rental income is \$1,177 monthly. Rental income during the year ended December 31, 2011 totaled \$17,196.

PROJECT ON GOVERNMENT OVERSIGHT, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

4. LEASE COMMITMENTS AND RELATED PARTY (Continued)

Total future minimum lease payments due under the terms of these subleases as of December 31, 2011 are as follows:

Year Ended December 31, 2012	<b>\$ <u>29,121</u></b>
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5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2011:

Program Restricted:	
Nuclear Weapons Security Investigations	\$ 37,500
Congressional Oversight Training	20,000
Beth Daley Memorial Fund	<u>19,777</u>
	77,277
Time Restricted	<u>1,608,333</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b><u>\$1,685,610</u></b>

6. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses, which satisfied the restricted purposes specified by the donors or passage of time:

Program Restricted:	
Nuclear Weapons Security Investigations	\$ 67,500
Defense and National Security	73,333
Inspector General	33,334
Congressional Oversight Training	20,000
Beth Daley Memorial Fund	<u>10,033</u>
	204,200
Passage of Time	<u>1,593,750</u>
<b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b><u>\$1,797,950</u></b>

7. PENSION PLAN

POGO maintains a simplified employee pension plan for all eligible employees. Employees are eligible to participate in the plan after one year of service. Employer contributions are discretionary, subject to annual approval of the Board of Directors of POGO.

For the year ended December 31, 2011, POGO contributed 5% of each eligible employee's salary to the plan, which totaled \$47,239, and is reflected in employee benefits in the accompanying Statement of Functional Expenses.

## PROJECT ON GOVERNMENT OVERSIGHT, INC.

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011

#### 8. RETIREMENT PLAN

POGO sponsors a 403(b) retirement plan that is available to employees who meet certain eligibility requirements. Each employee may contribute up to the lesser of 20% of their salary or \$16,500. POGO does not contribute to the plan.

#### 9. ACCRUED CONTINGENT LITIGATION JUDGMENT

The U.S. Department of Justice (DOJ) filed a civil lawsuit against POGO in connection with the organization's monetary public service award given to an individual for his whistleblowing activities. In February 2008, POGO was found liable and was imposed a civil fine of \$120,000. POGO has accrued this civil fine in full on the Statement of Financial Position.

POGO appealed the jury verdict to the United States Court of Appeals for the District of Columbia Circuit. On August 3, 2010, the appellate court granted POGO's appeal and remanded the case to the district court for a new trial. The district court has scheduled a new jury trial to commence on September 20, 2012.

#### 10. FAIR VALUE MEASUREMENTS

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, POGO has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

**Level 1.** These are investments where values are based on unadjusted quoted prices for identical assets in an active market POGO has the ability to access.

**Level 2.** These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

**Level 3.** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2011.

- *Mutual funds*—The fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.



PROJECT ON GOVERNMENT OVERSIGHT, INC.

NOTES TO FINANCIAL STATEMENTS  
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10. FAIR VALUE MEASUREMENTS (Continued)

The table below summarizes, by level within the fair value hierarchy, POGO's investments as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Asset Class:</b>				
Vanguard Mutual Funds:				
Large-Cap Index Fund Admiral Shares	\$ 343,240	\$ -	\$ -	\$ 343,240
Small-Cap Value Index Fund	289,366	-	-	289,366
Global Equity Fund	<u>301,900</u>	<u>-</u>	<u>-</u>	<u>301,900</u>
<b>TOTAL</b>	<b><u>\$ 934,506</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 934,506</u></b>

11. SUBSEQUENT EVENTS

In preparing these financial statements, POGO has evaluated events and transactions for potential recognition or disclosure through May 1, 2012, the date the financial statements were issued.