

**INVESTIGATIVE NEWS NETWORK**  
**INDEPENDENT AUDITORS' REPORT**  
**AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2012**

# INVESTIGATIVE NEWS NETWORK

## TABLE OF CONTENTS

|                                  | <u>PAGE</u> |
|----------------------------------|-------------|
| Independent Auditors' Report     | 1           |
| Financial Statements:            |             |
| Statement of Financial Position  | 2           |
| Statement of Activities          | 3           |
| Statement of Cash Flows          | 4           |
| Statement of Functional Expenses | 5           |
| Notes to Financial Statements    | 6 - 8       |

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Investigative News Network

We have audited the accompanying financial statements of Investigative News Network ("INN") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, cash flows and statement of functional expenses 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.

### **Auditor's 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 from 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 auditor's 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.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Investigative News Network as of December 31, 2012, 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.

*Hinricher & Douglas, LLP*

Thousand Oaks, California  
July 16, 2013

**INVESTIGATIVE NEWS NETWORK**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2012**

ASSETS

Current assets:

Cash

|                      |            |
|----------------------|------------|
| Operations           | \$ 254,846 |
| Fiscal Sponsorship   | 42,640     |
|                      | 297,486    |
| Prepaid expenses     | 26,502     |
| Total current assets | 323,988    |

Equipment and furnishings, net of accumulated depreciation

7,021

Other assets:

|                    |       |
|--------------------|-------|
| Security deposit   | 1,700 |
| Total other assets | 1,700 |

Total assets

\$ 332,709

LIABILITIES

Current liabilities:

|                           |          |
|---------------------------|----------|
| Accounts payable          | \$ 2,807 |
| Total current liabilities | 2,807    |

Total liabilities

2,807

NET ASSETS

Net assets:

Unrestricted 187,262

Temporarily restricted

|                    |         |
|--------------------|---------|
| Fiscal Sponsorship | 42,640  |
| Other              | 100,000 |
|                    | 142,640 |

Total net assets

329,902

Total liabilities and net assets

\$ 332,709

*See accompanying auditors' report and notes to financial statements.*

**INVESTIGATIVE NEWS NETWORK**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2012**

|                                                     |            |
|-----------------------------------------------------|------------|
| <b>UNRESTRICTED NET ASSETS</b>                      |            |
| Grants and contributions                            | \$ 609,281 |
| Investment return                                   | 402        |
| Net assets released from restrictions               | 229,860    |
| Total public support, revenue and reclassifications | 839,543    |
| Program expenses                                    | 582,916    |
| Supporting services                                 |            |
| Management and general                              | 254,185    |
| Fund-raising                                        | 56,858     |
| Total supporting services                           | 311,043    |
| Total expenses before Fiscal Sponsorship expenses   | 893,959    |
| Fiscal Sponsorship Expenses                         | 7,360      |
| Total expenses                                      | 901,319    |
| Change in unrestricted net assets                   | (61,776)   |
| <b>TEMPORARILY RESTRICTED NET ASSETS</b>            |            |
| Grants and contributions                            | 322,500    |
| Fiscal sponsorship grants and contributions         | 50,000     |
| Net assets released from restrictions               | (229,860)  |
| Change in temporarily restricted net assets         | 142,640    |
| <b>CHANGE IN NET ASSETS</b>                         | 80,864     |
| Net assets - beginning of year                      | 249,038    |
| Net assets - end of year                            | \$ 329,902 |

*See accompanying auditors' report and notes to financial statements.*

**INVESTIGATIVE NEWS NETWORK**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2012**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

|                                                                                                       |                          |
|-------------------------------------------------------------------------------------------------------|--------------------------|
| Change in net assets                                                                                  | \$ 80,864                |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: |                          |
| Depreciation                                                                                          | 1,466                    |
| (Increase) decrease in accounts receivable                                                            | 189                      |
| (Increase) decrease in prepaid expenses                                                               | (15,077)                 |
| Increase (decrease) in accounts payable                                                               | <u>(187)</u>             |
| Net cash provided by (used in) operating activities                                                   | <u>67,255</u>            |
| Total increase/(decrease) in cash                                                                     | 67,255                   |
| Cash at beginning of year                                                                             | <u>230,231</u>           |
| Cash at end of year                                                                                   | <u><u>\$ 297,486</u></u> |

Supplemental information:

|                   |                    |
|-------------------|--------------------|
| Income taxes paid | \$ 0               |
| Interest paid     | <u><u>\$ 0</u></u> |

*See accompanying auditors' report and notes to financial statements.*

**INVESTIGATIVE NEWS NETWORK**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
YEAR ENDED DECEMBER 31, 2012

|                                    | Supporting Services |                         |                  | Total Expenses    |
|------------------------------------|---------------------|-------------------------|------------------|-------------------|
|                                    | Program<br>Services | Management<br>& General | Fundraising      | 2012              |
| Salaries and related expenses      | \$ 305,633          | \$ 137,612              | \$ 33,877        | \$ 477,122        |
| Professional fees                  | 28,722              | 20,880                  | 10,203           | 59,805            |
| Printing and postage               | 785                 | 468                     | -                | 1,253             |
| Travel and auto                    | 8,637               | 20,659                  | -                | 29,296            |
| Utilities                          | 1,060               | 481                     | 116              | 1,657             |
| Dues, licenses & education         | 8,809               | 464                     | -                | 9,273             |
| Telephone                          | 5,600               | 2,538                   | 613              | 8,751             |
| Rent                               | 13,270              | 5,975                   | 1,471            | 20,716            |
| Insurance                          | 10,777              | 12,435                  | -                | 23,212            |
| Taxes                              | 19,717              | 8,878                   | 2,185            | 30,780            |
| Office expense                     | 2,576               | 1,157                   | 285              | 4,018             |
| Employee benefits                  | 22,403              | 10,087                  | 2,483            | 34,973            |
| Computer and internet              | 45,559              | 11,390                  | -                | 56,949            |
| Marketing                          | -                   | 2,579                   | -                | 2,579             |
| Conferences and meetings           | 81,515              | 15,284                  | 5,095            | 101,894           |
| Meals and entertainment            | 1,105               | 2,873                   | 442              | 4,420             |
| Grants and awards                  | 25,795              | -                       | -                | 25,795            |
| <br>                               |                     |                         |                  |                   |
| Total expenses before depreciation | 581,963             | 253,760                 | 56,770           | 892,493           |
| <br>                               |                     |                         |                  |                   |
| Depreciation                       | 953                 | 425                     | 88               | 1,466             |
| <br>                               |                     |                         |                  |                   |
| Total expenses                     | <u>\$ 582,916</u>   | <u>\$ 254,185</u>       | <u>\$ 56,858</u> | <u>\$ 893,959</u> |

*See accompanying auditors' report and notes to financial statements.*

**INVESTIGATIVE NEWS NETWORK**  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2012

NOTE 1 - DESCRIPTION OF ORGANIZATION:

INN was organized to help nonprofit news organizations produce and distribute stories with impact; to achieve cost efficiencies by pooling resources and services, and to develop new revenue streams that will help member organizations become sustainable businesses.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES:

Financial Statement Presentation

INN has presented its financial statements in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, INN is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, INN is required to present a statement of cash flows.

Equipment and Furnishings

All acquisitions of equipment and furnishings in excess of \$500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Purchased equipment and furnishing are stated at cost. Depreciation is computed using the straight-line method with the following estimated useful lives:

|                           |              |
|---------------------------|--------------|
| Equipment and furnishings | 5 to 7 years |
|---------------------------|--------------|

Expenditures for maintenance and repairs are charged directly to the appropriate operating account at the time the expense is incurred. Expenditures determined to represent additions and betterments are capitalized.

Contributions

Contributions and grants are reported as unrestricted, temporarily restricted or permanently restricted depending on the donor's directives. When a restriction expires temporarily restricted or permanently restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Contributed Services

No amounts have been reflected in the financial statements for contributed services. INN generally pays for services requiring specific expertise.



**INVESTIGATIVE NEWS NETWORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES: (Continued)

Fiscal Sponsorships

INN effects change not only through the direct impact of its own programs but also by supporting members who have yet to receive their exempt status. One of the ways that INN does this is by becoming a fiscal sponsor to independent projects to further their mission. As a fiscal sponsor, INN receives donations and provides organization infrastructure, legal and tax-exempt status for the projects at no cost. In 2012, INN was a fiscal sponsor for one project; Tucson Sentinel.

Income Taxes

INN is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, the Internal Revenue Service has determined that INN is not a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the year ended December 31, 2012. At December 31, 2012 the corporation's information returns generally remain open for the three preceding years.

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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of 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 and contingent assets and liabilities (e.g., the fair value of financial instruments, potential impairments to fixed assets and accrued expenses) 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

Cash equivalents consist of highly liquid investments with an initial maturity of three months or less. Fair value approximates carrying amounts. As of December 31, 2012 INN has no cash equivalents.

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

INN maintains its cash at one financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation in full at December 31, 2012.

**INVESTIGATIVE NEWS NETWORK**  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2012

NOTE 3 – EQUIPMENT AND FURNISHINGS:

Equipment and furnishings consists of the following at December 31:

|                                |                 |
|--------------------------------|-----------------|
|                                | <u>2012</u>     |
| Equipment and furnishings      | \$ 9,483        |
| Less: accumulated depreciation | <u>(2,462)</u>  |
|                                | <u>\$ 7,021</u> |

NOTE 4 - ACCOUNTS PAYABLE:

Accounts payable consists of normal operating expenses of INN that occurred prior to December 31, 2012; there were no unusual items accrued.

NOTE 5 - COMMITMENTS AND CONTINGENCIES:

17514 Ventura Boulevard, Suite 103, Encino, CA

On March 31, 2011, the Company entered into an original 26 month lease that was extended for 36 months with 17514 Ventura Boulevard Building, LLC. The lease expires June 30, 2016. The extended lease monthly rent begins at \$2,617 and increases over the term of the lease. Rental expense on the lease was \$29,305 for 2012. INN subleases out a portion of the space for \$721 per month on a month to month basis and received a \$700 deposit. Future minimum lease payments under noncancelable leases in excess of one year are as follows:

|                           |                   |
|---------------------------|-------------------|
| Years ending December 31, |                   |
| 2013                      | \$ 30,646         |
| 2014                      | 31,878            |
| 2015                      | 32,838            |
| 2016                      | <u>16,662</u>     |
|                           | <u>\$ 112,024</u> |

NOTE 6 – FISCAL SPONSORSHIPS

INN is a fiscal sponsor for one project:

- The Tucson Sentinel, an independent project, that provides nonprofit local independent news. The grant was provided by Ethics and Ethics in Journalism for investigative reporting on the US-Mexico border.

NOTE 7 - EVALUATION OF SUBSEQUENT EVENTS:

Subsequent events have been evaluated through July 16, 2013, the date the financial statements were available to be issued.

