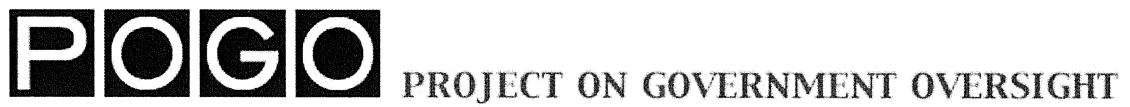


FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2011**

PROJECT ON GOVERNMENT OVERSIGHT, INC.

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GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Project on Government Oversight, Inc. (POGO) (a non-profit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and change in net assets, 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.

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 POGO as of December 31, 2012, and the change 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.

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

Report on Summarized Comparative Information

We have previously audited POGO's December 31, 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 1, 2012. In our opinion, the summarized comparative information presented herein, as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Freedman

Bethesda, Maryland
April 11, 2013

PROJECT ON GOVERNMENT OVERSIGHT, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,597,894	\$ 1,158,596
Investments (Notes 2 and 10)	769,566	934,506
Other accounts receivable	1,865	-
Grants receivable	125,631	1,522,688
Tenant improvement allowance receivable (Note 4)	-	48,143
Inventory	890	950
Prepaid expenses	<u>32,154</u>	<u>97,718</u>
Total current assets	<u>2,528,000</u>	<u>3,762,601</u>
FIXED ASSETS, Net (Note 3)	<u>348,081</u>	<u>71,717</u>
OTHER ASSETS - Deposits	<u>22,690</u>	<u>22,690</u>
TOTAL ASSETS	<u>\$ 2,898,771</u>	<u>\$ 3,857,008</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 46,529	\$ 55,043
Deferred rent, current portion (Note 4)	38,518	-
Accrued SEP contribution (Note 7)	37,891	47,239
Accrued contingent litigation judgment (Note 9)	<u>120,000</u>	<u>120,000</u>
Total current liabilities	<u>242,938</u>	<u>222,282</u>
LONG-TERM LIABILITIES - Deferred Rent (Note 4)	<u>446,046</u>	<u>48,143</u>
Total liabilities	<u>688,984</u>	<u>270,425</u>
NET ASSETS		
Unrestricted	1,689,350	1,900,973
Temporarily restricted (Note 5)	<u>520,437</u>	<u>1,685,610</u>
Total net assets	<u>2,209,787</u>	<u>3,586,583</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,898,771</u>	<u>\$ 3,857,008</u>

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, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

	<u>2012</u>			<u>2011</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE				
Contributions	\$ 141,136	\$ 210,409	\$ 351,545	\$ 91,671
Grants	18,000	511,845	529,845	1,752,573
Interest and dividend income	20,138	-	20,138	21,948
Unrealized gain (loss) on investments	142,435	-	142,435	(55,915)
Contributed services	42,450	-	42,450	58,950
Publications and other income	1,371	-	1,371	219
Fundraising event	-	-	-	59,400
Net assets released from donor restrictions (Note 6)	<u>1,887,427</u>	<u>(1,887,427)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>2,252,957</u>	<u>(1,165,173)</u>	<u>1,087,784</u>	<u>1,928,846</u>
EXPENSES				
Program Services:				
Nuclear Weapons Security Investigations	252,621	-	252,621	145,488
Contract Oversight	282,186	-	282,186	260,342
Inherently Governmental Functions	-	-	-	158,463
Emerging Programs	103,923	-	103,923	176,908
Defense and National Security	306,775	-	306,775	197,794
Energy and Natural Resources Investigations	70,111	-	70,111	76,815
Whistleblower Protections	119,502	-	119,502	110,397
Financial Sector Oversight	95,644	-	95,644	91,688
Public Health Investigations	78,987	-	78,987	171,092
Government Accountability	474,941	-	474,941	353,916
Inspector General	44,447	-	44,447	53,118
Congressional Oversight Training	26,388	-	26,388	44,738
Straus Military Reform Project	155,044	-	155,044	-
Direct and Grassroots Lobbying	<u>53,748</u>	<u>-</u>	<u>53,748</u>	<u>37,947</u>
Total program services	<u>2,064,317</u>	<u>-</u>	<u>2,064,317</u>	<u>1,878,706</u>
Supporting Services:				
General and Administrative	166,008	-	166,008	161,542
Development	<u>234,255</u>	<u>-</u>	<u>234,255</u>	<u>269,080</u>
Total supporting services	<u>400,263</u>	<u>-</u>	<u>400,263</u>	<u>430,622</u>
Total expenses	<u>2,464,580</u>	<u>-</u>	<u>2,464,580</u>	<u>2,309,328</u>
Change in net assets	(211,623)	(1,165,173)	(1,376,796)	(380,482)
Net assets at beginning of year	<u>1,900,973</u>	<u>1,685,610</u>	<u>3,586,583</u>	<u>3,967,065</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,689,350</u>	<u>\$ 520,437</u>	<u>\$ 2,209,787</u>	<u>\$ 3,586,583</u>

See accompanying notes to financial statements.

PROJECT ON GOVERNMENT OVERSIGHT, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

	2012			
	Program Services			
	Nuclear Weapons Security Investigations	Contract Oversight	Emerging Programs	Defense and National Security
Personnel Costs:				
Salaries	\$ 161,478	\$ 169,649	\$ 63,482	\$ 186,591
Employee benefits (Notes 7 and 8)	13,502	15,107	6,411	18,165
Payroll taxes	<u>12,594</u>	<u>13,217</u>	<u>4,948</u>	<u>16,016</u>
Total personnel costs	187,574	197,973	74,841	220,772
Rent (Note 4)	25,191	26,900	10,012	33,254
Web/Internet	9,238	11,507	5,384	13,270
Consultant fees	4,000	2,832	-	-
Printing, copying and publishing	5,422	7,120	2,832	9,003
Accounting fees	-	-	-	-
Research materials and documents	2,853	4,144	1,792	4,236
Telephone	902	1,106	447	1,321
Travel	101	218	31	1,203
Outreach	5,031	5,838	2,590	6,756
Depreciation and amortization	5,655	6,038	2,247	7,465
Technology	2,188	3,102	1,100	2,870
Office supplies	560	685	333	735
Membership and professional growth	-	487	-	-
Postage	2,381	2,672	1,285	3,423
Insurance	1,028	1,253	554	1,546
Filing fees	-	-	-	-
Bank and payroll fees	-	-	-	-
Legal fees	-	-	164	-
Maintenance, repairs and miscellaneous	156	194	95	209
Meeting expenses	133	282	78	399
Equipment and equipment rental	94	76	55	156
In-kind contributions - services	-	9,600	-	-
Move expense	-	-	-	-
Fundraising events	-	-	-	-
Advertising/recruiting	114	159	83	157
Grant expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	\$ 252,621	\$ 282,186	\$ 103,923	\$ 306,775

See accompanying notes to financial statements.

Energy and Natural Resources Investigations	Whistleblower Protections	Financial Sector Oversight	Public Health Investigations	Government Accountability	Inspector General
\$ 21,349	\$ 74,954	\$ 61,473	\$ 28,635	\$ 260,331	\$ 27,716
1,602	6,369	4,746	3,005	23,689	2,623
1,624	5,839	4,725	2,250	20,218	2,233
24,575	87,162	70,944	33,890	304,238	32,572
3,207	11,659	9,428	4,483	46,856	4,700
1,285	4,741	3,422	2,621	21,104	1,735
-	-	-	-	50,000	-
852	2,766	3,096	1,566	11,461	1,388
-	-	-	-	-	-
397	1,471	1,348	907	5,787	633
101	424	309	205	1,623	196
176	170	21	1,216	306	20
634	2,299	2,531	1,444	10,294	945
720	2,617	2,116	1,006	10,518	1,055
332	1,084	749	573	3,824	435
1,904	291	205	166	1,065	97
-	-	-	-	22	-
307	1,052	890	589	5,128	348
131	500	374	257	1,833	209
-	-	-	-	-	-
-	-	-	-	-	-
35,412	-	-	-	-	-
23	80	59	47	255	24
20	3,070	53	34	275	50
14	49	51	30	189	23
-	-	-	29,910	-	-
-	-	-	-	-	-
-	-	-	-	-	-
21	67	48	43	163	17
-	-	-	-	-	-
\$ 70,111	\$ 119,502	\$ 95,644	\$ 78,987	\$ 474,941	\$ 44,447

See accompanying notes to financial statements.

PROJECT ON GOVERNMENT OVERSIGHT, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

	2012			
	Program Services (Continued)			
	Straus			
	Congressional Oversight Training	Military Reform Project	Direct and Grassroots Lobbying	Total Program Services
Personnel Costs:				
Salaries	\$ 15,877	\$ 99,086	\$ 33,664	\$ 1,204,285
Employee benefits (Notes 7 and 8)	1,338	4,028	2,774	103,359
Payroll taxes	<u>1,243</u>	<u>6,031</u>	<u>2,618</u>	<u>93,556</u>
Total personnel costs	18,458	109,145	39,056	1,401,200
Rent (Note 4)	2,533	11,492	5,454	195,169
Web/Internet	978	13,329	1,908	90,522
Consultant fees	-	-	-	56,832
Printing, copying and publishing	658	8,740	1,401	56,305
Accounting fees	-	-	-	-
Research materials and documents	322	580	646	25,116
Telephone	93	199	199	7,125
Travel	104	22	20	3,608
Outreach	543	2,466	981	42,352
Depreciation and amortization	569	2,580	1,224	43,810
Technology	211	335	416	17,219
Office supplies	52	114	105	6,312
Membership and professional growth	-	-	-	509
Postage	209	3,355	518	22,157
Insurance	104	216	233	8,238
Filing fees	-	55	-	55
Bank and payroll fees	-	-	-	-
Legal fees	-	2,362	-	37,938
Maintenance, repairs and miscellaneous	14	33	30	1,219
Meeting expenses	1,468	-	41	5,903
Equipment and equipment rental	62	21	24	844
In-kind contributions - services	-	-	1,470	40,980
Move expense	-	-	-	-
Fundraising events	-	-	-	-
Advertising/recruiting	10	-	22	904
Grant expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	\$ 26,388	\$ 155,044	\$ 53,748	\$ 2,064,317

See accompanying notes to financial statements.

2011				
Supporting Services				
General and		Total	Total	Total
Administrative	Development	Supporting	Expenses	Expenses
		Services		
\$ 108,652	\$ 129,547	\$ 238,199	\$ 1,442,484	\$ 1,292,948
1,500	10,595	12,095	115,454	133,841
<u>8,325</u>	<u>10,069</u>	<u>18,394</u>	<u>111,950</u>	<u>99,525</u>
118,477	150,211	268,688	1,669,888	1,526,314
10,831	20,455	31,286	226,455	136,329
262	6,167	6,429	96,951	145,628
2,000	-	2,000	58,832	93,990
(940)	8,402	7,462	63,767	39,546
18,071	-	18,071	18,071	18,155
-	-	-	25,116	12,973
472	726	1,198	8,323	7,575
706	6,780	7,486	11,094	13,030
-	20,916	20,916	63,268	59,803
2,432	4,592	7,024	50,834	9,455
1,214	1,643	2,857	20,076	1,893
201	423	624	6,936	5,385
318	-	318	827	4,353
298	4,256	4,554	26,711	13,109
3,751	838	4,589	12,827	9,131
1,410	3,878	5,288	5,343	4,793
4,168	-	4,168	4,168	3,788
90	-	90	38,028	10,237
400	119	519	1,738	8,452
242	177	419	6,322	7,348
135	87	222	1,066	589
1,470	-	1,470	42,450	58,950
-	-	-	-	3,999
-	4,585	4,585	4,585	64,503
-	-	-	904	-
-	-	-	-	50,000
<u>\$ 166,008</u>	<u>\$ 234,255</u>	<u>\$ 400,263</u>	<u>\$ 2,464,580</u>	<u>\$ 2,309,328</u>

See accompanying notes to financial statements.

PROJECT ON GOVERNMENT OVERSIGHT, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,376,796)	\$ (380,482)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	50,834	9,455
Unrealized (gain) loss on investments	(142,435)	55,915
Leasehold improvements and other related expenses covered by lease Included in deferred rent	66,557	-
(Increase) decrease in:		
Other accounts receivable	(1,865)	-
Grants receivable	1,397,057	(448,606)
Tenant improvement allowance receivable	48,143	-
Inventory	60	97
Prepaid expenses	65,564	(11,163)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(8,514)	29,294
Deferred rent	51,243	(7,908)
Accrued SEP contribution	<u>(9,348)</u>	<u>(12,879)</u>
Net cash provided (used) by operating activities	<u>140,500</u>	<u>(766,277)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(8,577)	(67,354)
Sale (purchase) of investments	307,375	(19,192)
Deposit paid	<u>-</u>	<u>(10,272)</u>
Net cash provided (used) by investing activities	<u>298,798</u>	<u>(96,818)</u>
Net increase (decrease) in cash and cash equivalents	439,298	(863,095)
Cash and cash equivalents at beginning of year	<u>1,158,596</u>	<u>2,021,691</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,597,894</u>	<u>\$ 1,158,596</u>
SCHEDULE OF NONCASH INVESTING TRANSACTIONS		
Leasehold Improvement and Related Expenses Covered by Lease Included in Deferred Rent	<u>\$ 318,621</u>	<u>\$ 48,143</u>

See accompanying notes to financial statements.

PROJECT ON GOVERNMENT OVERSIGHT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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 non-partisan, 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, 2011, 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") provided temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) insured depository institutions (the "Dodd-Frank Deposit Insurance Provision"). POGO maintained a portion of its cash balance at a financial institution in a non-interest bearing account; thereby, all of this cash balance was protected by the FDIC under this Act. Beginning January 1, 2013, funds deposited in non-interest bearing accounts will no longer receive unlimited deposit insurance coverage. Bank deposit accounts at one institution will be insured by the FDIC up to a limit of \$250,000. 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, 2012

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, 2012, 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.

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.

PROJECT ON GOVERNMENT OVERSIGHT, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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

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.

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 measurement -

POGO adopted the provisions of FASB ASC 820, *Fair Value Measurement*. 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, 2012:

	<u>Cost</u>	<u>Market Value</u>
Vanguard Mutual Funds:		
Large-Cap Index Fund Admiral Shares	\$ 125,638	\$ 272,902
Small-Cap Value Index Fund	102,176	240,828
Global Equity Fund	<u>172,319</u>	<u>255,836</u>
TOTAL INVESTMENTS	<u>\$ 400,133</u>	<u>\$ 769,566</u>

PROJECT ON GOVERNMENT OVERSIGHT, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

3. **FIXED ASSETS**

Fixed assets consisted of the following at December 31, 2012:

Furniture and computers	\$ 109,729
Leasehold improvements	<u>351,441</u>
Total fixed assets	461,170
Less: Accumulated depreciation and amortization	<u>(113,089)</u>
FIXED ASSETS, NET	<u>\$ 348,081</u>

4. **LEASE COMMITMENTS AND RELATED PARTY**

POGO leases office space in the District of Columbia, under a non-cancelable operating lease that extends through December 31, 2021. 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 for a tenant improvement allowance for the build-out of the new space, office moving expenses and office equipment; the amount received for these items is charged to deferred rent in the accompanying Statement of Financial Position.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability on the Statement of Financial Position.

Rent expense for the year ended December 31, 2012 totaled \$226,455, which included \$255,577 from straight-line rent expense, including other leasing, operating and real estate tax expenses, less \$29,122 of rental income from a sublessor.

Total future minimum lease payments required under the terms of this lease as of December 31, 2012 are as follows:

Year Ending December 31,

2013	\$ 279,088
2014	286,065
2015	293,216
2016	300,547
2017	313,829
Thereafter	<u>1,335,761</u>
	<u>\$ 2,808,506</u>

POGO renewed its annual sublease to a Board member for \$1,280 per month. At the end of 2012, POGO renewed its one-year sublease with a related organization. Rental income is \$1,207 monthly. Rental income during the year ended December 31, 2012 totaled \$29,122.

PROJECT ON GOVERNMENT OVERSIGHT, INC.

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4. LEASE COMMITMENTS AND RELATED PARTY (Continued)

Total future minimum lease payments due under the terms of these subleases as of December 31, 2012 are as follows:

Year Ending December 31, 2013	\$ <u>29,850</u>
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5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2012:

Program Restricted:	
Nuclear Weapons Security Investigations	\$ 25,000
Beth Daley Memorial Fund	14,057
Straus Military Reform Project	<u>37,455</u>
	76,512
Time Restricted	<u>443,925</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$ <u>520,437</u>

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	\$ 62,500
Congressional Oversight Training	20,000
Beth Daley Memorial Fund	23,630
Straus Military Reform Project	<u>155,044</u>
	261,174
Passage of Time	<u>1,626,253</u>
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	\$ <u>1,887,427</u>

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, 2012, POGO contributed 4% of each eligible employee's salary to the plan, which totaled \$37,891, and is accrued in the accompanying Statement of Financial Position and is included in employee benefits in the accompanying Statement of Functional Expenses.

PROJECT ON GOVERNMENT OVERSIGHT, INC.

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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 \$17,000. POGO does not contribute to the plan.

9. ACCRUED CONTINGENT LITIGATION JUDGMENT

In 2003, 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. The case was retried in December 2012 and a hung jury was unable to find POGO liable. In January 2013, the DOJ stated that it would not retry the case against POGO, which was followed by a Court Order that dismissed the count against POGO.

10. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, 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, 2012.

- *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.

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10. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, POGO's investments as of December 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class:				
Vanguard Mutual Funds:				
Large-Cap Index Fund Admiral Shares	\$ 272,902	\$ -	\$ -	\$ 272,902
Small-Cap Value Index Fund	240,828	-	-	240,828
Global Equity Fund	<u>255,836</u>	<u>-</u>	<u>-</u>	<u>255,836</u>
TOTAL	<u>\$ 769,566</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 769,566</u>

11. SUBSEQUENT EVENTS

In preparing these financial statements, POGO has evaluated events and transactions for potential recognition or disclosure through April 11, 2013, the date the financial statements were issued.