

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2016**

PROJECT ON GOVERNMENT OVERSIGHT, INC.

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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), which comprise the statement of financial position as of December 31, 2017, 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, 2017, 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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Report on Summarized Comparative Information

We have previously audited POGO's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 31, 2017. In our opinion, the summarized comparative information presented herein, as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Freedman

May 23, 2018

PROJECT ON GOVERNMENT OVERSIGHT, INC.

**STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,727,475	\$ 794,765
Investments (Notes 2 and 12)	3,265,880	2,079,413
Accounts receivable	38,789	32,476
Grants receivable	1,613,742	219,208
Inventory	-	2,957
Prepaid expenses	<u>87,934</u>	<u>90,938</u>
Total current assets	<u>6,733,820</u>	<u>3,219,757</u>
FIXED ASSETS, NET (Note 3)	<u>133,814</u>	<u>177,109</u>
NONCURRENT ASSETS		
Deposits	33,108	23,790
Grants receivable, net of current portion	<u>37,600</u>	<u>-</u>
Total noncurrent assets	<u>70,708</u>	<u>23,790</u>
TOTAL ASSETS	<u>\$ 6,938,342</u>	<u>\$ 3,420,656</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 61,415	\$ 107,182
Deferred rent (Note 4)	63,695	55,849
Accrued SEP contribution (Note 5)	<u>182,103</u>	<u>50,975</u>
Total current liabilities	307,213	214,006
LONG-TERM LIABILITIES - Deferred Rent (Note 4)	<u>240,144</u>	<u>303,839</u>
Total liabilities	<u>547,357</u>	<u>517,845</u>
NET ASSETS		
Unrestricted	4,073,113	2,096,756
Temporarily restricted (Note 7)	<u>2,317,872</u>	<u>806,055</u>
Total net assets	<u>6,390,985</u>	<u>2,902,811</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,938,342</u>	<u>\$ 3,420,656</u>

PROJECT ON GOVERNMENT OVERSIGHT, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE				
Contributions	\$ 773,955	\$ 226,401	\$ 1,000,356	\$ 607,977
Grants	2,381,845	2,925,600	5,307,445	1,513,117
Interest and dividend income (Note 2)	51,711	-	51,711	32,326
Unrealized gain on investments (Note 2)	337,358	-	337,358	169,267
Contributed services	-	-	-	12,750
The Constitution Project (Note 11)	457,283	-	457,283	-
Other	38,906	32,873	71,779	388,664
Net assets released from donor restrictions (Note 8)	<u>1,778,057</u>	<u>(1,778,057)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>5,819,115</u>	<u>1,406,817</u>	<u>7,225,932</u>	<u>2,724,101</u>
EXPENSES				
Program Services:				
Ethical, Effective and Accountable Government	1,781,487	-	1,781,487	925,744
Congressional Oversight Initiative	437,640	-	437,640	591,844
CDI/Straus Military Reform Project	421,668	-	421,668	463,942
Inspectors General Project	191,474	-	191,474	242,348
Private Prison Oversight	105,790	-	105,790	20,520
Natural Resources and Public Lands	50,653	-	50,653	151,193
Nuclear Weapons Security Investigations	45,401	-	45,401	93,599
DOD Revolving Door	35,153	-	35,153	-
Defense Spending Transparency	19,548	-	19,548	-
The Constitution Project	6,086	-	6,086	-
Defending the Courts	3,326	-	3,326	-
Direct and Grassroots Lobbying	<u>41,693</u>	<u>-</u>	<u>41,693</u>	<u>21,725</u>
Total program services	<u>3,139,919</u>	<u>-</u>	<u>3,139,919</u>	<u>2,510,915</u>
Supporting Services:				
General and Administrative	252,073	-	252,073	147,155
Development	<u>460,084</u>	<u>-</u>	<u>460,084</u>	<u>321,339</u>
Total supporting services	<u>712,157</u>	<u>-</u>	<u>712,157</u>	<u>468,494</u>
Total expenses	<u>3,852,076</u>	<u>-</u>	<u>3,852,076</u>	<u>2,979,409</u>
Change in net assets before other item	1,967,039	1,406,817	3,373,856	(255,308)
OTHER ITEM				
Transfer of net assets	<u>9,318</u>	<u>105,000</u>	<u>114,318</u>	<u>-</u>
Change in net assets	1,976,357	1,511,817	3,488,174	(255,308)
Net assets at beginning of year	<u>2,096,756</u>	<u>806,055</u>	<u>2,902,811</u>	<u>3,158,119</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,073,113</u>	<u>\$ 2,317,872</u>	<u>\$ 6,390,985</u>	<u>\$ 2,902,811</u>

See accompanying notes to financial statements.

PROJECT ON GOVERNMENT OVERSIGHT, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	2017					
	Program Services					
	Ethical, Effective and Accountable Government	Congressional Oversight Initiative	CDI/Straus Military Reform Project	Inspectors General Project	Private Prison Oversight	Natural Resources and Public Lands
Personnel Costs:						
Salaries	\$ 1,106,037	\$ 242,574	\$ 244,358	\$ 121,636	\$ 71,065	\$ 27,330
Employee benefits (Note 6)	159,437	33,305	33,110	10,955	8,815	3,478
Payroll taxes	83,756	18,255	18,570	9,314	5,347	2,198
Total personnel costs	1,349,230	294,134	296,038	141,905	85,227	33,006
Rent (Note 4)	121,204	22,859	34,341	15,722	7,069	8,824
Printing and postage	28,391	5,506	44,472	3,203	1,595	1,940
Web/Internet	53,558	8,759	13,149	4,889	2,693	2,442
Outreach	73,223	13,744	14,413	5,634	4,551	1,249
Consultant fees	70,420	1,425	-	12,500	-	-
Depreciation and amortization	20,638	4,116	5,322	2,149	1,173	1,104
Contributed services	-	-	-	-	-	-
Research materials and documents	18,641	9,973	3,387	1,585	939	502
Technology	16,299	3,229	4,077	1,594	962	822
Travel	3,802	1,564	306	103	110	5
Legal fees	-	-	-	-	-	-
Accounting fees	-	-	-	-	-	-
Insurance	6,735	1,378	1,684	703	432	304
Fundraising events	-	-	-	-	-	-
Meeting expenses	1,253	48,794	242	-	-	-
Telephone	4,693	915	1,220	523	288	243
Bank and payroll fees	-	-	-	-	-	-
Maintenance, repairs and miscellaneous	3,072	159	217	99	45	52
Filing fees	11	-	-	-	-	-
Office supplies	1,307	320	344	153	80	54
Equipment and equipment rental	306	57	74	31	18	15
Membership and professional growth	1,025	-	588	-	-	-
Strategic review	7,679	1,753	1,794	681	608	91
Advertising and recruitment	-	80	-	-	-	-
Unsalable inventory	-	-	-	-	-	-
Grant expense	-	18,875	-	-	-	-
TOTAL	\$ 1,781,487	\$ 437,640	\$ 421,668	\$ 191,474	\$ 105,790	\$ 50,653

Nuclear Weapons Security Investigations	DOD Revolving Door	Defense Spending Transparency	The Constitution Project	Defending the Courts	Direct and Grassroots Lobbying	Total Program Services
\$ 27,678	\$ 23,817	\$ 13,353	\$ 1,860	\$ 2,396	\$ 27,513	\$ 1,909,617
2,866	3,632	1,227	411	658	2,993	260,887
2,147	1,793	1,035	108	173	2,114	144,810
32,691	29,242	15,615	2,379	3,227	32,620	2,315,314
5,496	2,089	1,218	-	-	3,486	222,308
1,193	543	446	1,313	-	917	89,519
1,673	790	565	-	-	1,288	89,806
1,899	1,154	853	-	-	1,380	118,100
-	-	-	2,250	-	-	86,595
654	396	233	24	38	569	36,416
-	-	-	-	-	-	-
444	229	158	-	-	378	36,236
623	329	222	-	-	453	28,610
45	34	10	-	-	25	6,004
-	-	-	-	-	-	-
-	-	-	-	-	-	-
241	120	74	-	-	182	11,853
-	-	-	-	-	-	-
-	-	-	-	61	-	50,350
172	79	44	-	-	124	8,301
-	-	-	-	-	-	-
32	13	6	-	-	20	3,715
-	-	-	120	-	-	131
42	20	12	-	-	32	2,364
11	5	3	-	-	8	528
-	-	-	-	-	-	1,613
185	110	89	-	-	211	13,201
-	-	-	-	-	-	80
-	-	-	-	-	-	-
-	-	-	-	-	-	18,875
\$ 45,401	\$ 35,153	\$ 19,548	\$ 6,086	\$ 3,326	\$ 41,693	\$ 3,139,919

PROJECT ON GOVERNMENT OVERSIGHT, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	2017 (Continued)			2016	
	Supporting Services				
	General and Administrative	Development	Total Supporting Services	Total Expenses	Total Expenses
Personnel Costs:					
Salaries	\$ 143,488	\$ 212,426	\$ 355,914	\$ 2,265,531	\$ 1,748,435
Employee benefits (Note 6)	21,168	28,644	49,812	310,699	154,262
Payroll taxes	10,806	16,118	26,924	171,734	128,972
Total personnel costs	175,462	257,188	432,650	2,747,964	2,031,669
Rent (Note 4)	13,540	26,960	40,500	262,808	237,848
Printing and postage	2,238	35,048	37,286	126,805	134,730
Web/Internet	525	8,997	9,522	99,328	83,951
Outreach	-	95,433	95,433	213,533	36,305
Consultant fees	175	1,250	1,425	88,020	103,482
Depreciation and amortization	2,637	4,242	6,879	43,295	51,150
Contributed services	-	-	-	-	12,750
Research materials and documents	-	-	-	36,236	33,113
Technology	2,038	3,335	5,373	33,983	12,223
Travel	6,289	3,749	10,038	16,042	13,810
Legal fees	385	-	385	385	893
Accounting fees	17,107	-	17,107	17,107	18,000
Insurance	3,723	1,373	5,096	16,949	15,512
Fundraising events	-	12,441	12,441	12,441	37,900
Meeting expenses	1,108	126	1,234	51,584	50,469
Telephone	535	1,005	1,540	9,841	9,574
Bank and payroll fees	10,088	-	10,088	10,088	9,225
Maintenance, repairs and miscellaneous	2,634	2,437	5,071	8,786	6,314
Filing fees	125	4,687	4,812	4,943	4,430
Office supplies	2,605	247	2,852	5,216	3,482
Equipment and equipment rental	34	59	93	621	1,006
Membership and professional growth	496	87	583	2,196	6,448
Strategic review	911	1,420	2,331	15,532	-
Advertising and recruitment	1,461	-	1,461	1,541	-
Unsalable Inventory	2,957	-	2,957	2,957	-
Grant expense	5,000	-	5,000	23,875	65,125
TOTAL	\$ 252,073	\$ 460,084	\$ 712,157	\$ 3,852,076	\$ 2,979,409

PROJECT ON GOVERNMENT OVERSIGHT, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,488,174	\$ (255,308)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	43,295	51,150
Unrealized gain on investments (Note 2)	(337,358)	(169,267)
(Increase) decrease in:		
Accounts receivable	(6,313)	(29,588)
Grants receivable	(1,432,134)	478,615
Inventory	2,957	109
Prepaid expenses	3,004	(5,068)
Other assets	(9,318)	-
(Decrease) increase in:		
Accounts payable and accrued liabilities	(45,767)	415
Deferred rent (Note 4)	(55,849)	(42,566)
Accrued SEP contribution (Note 5)	<u>131,128</u>	<u>13,301</u>
Net cash provided by operating activities	<u>1,781,819</u>	<u>41,793</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	-	(1,125)
Purchase of investments	<u>(849,109)</u>	<u>(430,767)</u>
Net cash used by investing activities	<u>(849,109)</u>	<u>(431,892)</u>
Net increase (decrease) in cash and cash equivalents	932,710	(390,099)
Cash and cash equivalents at beginning of year	<u>794,765</u>	<u>1,184,864</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,727,475</u>	<u>\$ 794,765</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS		
Donated Investments	<u>\$ 118,279</u>	<u>\$ 131,942</u>

PROJECT ON GOVERNMENT OVERSIGHT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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.

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, 2016, 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.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, POGO maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Interest and dividend income and unrealized gains are shown separately in the Statement of Activities and Change in Net Assets. Donated investments consist of donated stock that were sold immediately.

Accounts and grants receivable -

Accounts 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.

Grants receivable that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received.

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 fixed assets with a cost of \$2,000 or more. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation and amortization expense for the year ended December 31, 2017 totaled \$43,295.

PROJECT ON GOVERNMENT OVERSIGHT, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 -

For the year ended December 31, 2017, POGO has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Inventory -

For the year ended December 31, 2017, POGO adopted FASB ASU 2015-11 *Simplifying the Measurement of Inventory*, and as such, inventory is measured at the lower of cost and net realizable value using the first-in, first-out method of inventory. The ASU is applied prospectively.

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.

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.

PROJECT ON GOVERNMENT OVERSIGHT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

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.

New accounting pronouncements (not yet adopted) -

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of POGO's financial statements, it is not expected to alter POGO's reported financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018. Early adoption is permitted. POGO has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

PROJECT ON GOVERNMENT OVERSIGHT, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

New accounting pronouncements (not yet adopted) (continued) -

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

POGO plans to adopt the new ASUs at the respective required implementation dates.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

2. **INVESTMENTS**

Investments consisted of the following at December 31, 2017:

	<u>Cost</u>	<u>Fair Value</u>
Mutual Funds	<u>\$ 2,461,244</u>	<u>\$ 3,265,880</u>

Included in investment income are the following:

Interest and dividends	\$ 51,711
Unrealized gain	<u>337,358</u>
TOTAL INVESTMENT INCOME	<u>\$ 389,069</u>

3. **FIXED ASSETS**

Fixed assets consisted of the following at December 31, 2017:

Furniture and computers	\$ 103,321
Leasehold improvements	<u>351,441</u>
Total fixed assets	454,762
Less: Accumulated depreciation and amortization	<u>(320,948)</u>
FIXED ASSETS, NET	<u>\$ 133,814</u>

PROJECT ON GOVERNMENT OVERSIGHT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

4. LEASE COMMITMENTS AND RELATED PARTY TRANSACTIONS

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 lease provides for a tenant improvement allowance for the build-out of space, office moving expenses and office equipment. The value of these improvements totaled \$385,178. These improvements have been recorded as an asset and as a deferred rent liability in the accompanying Statement of Financial Position and are being amortized over the life of the related lease.

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, 2017 totaled \$295,693, which together with \$32,885 of rental income from sublessors, resulted in net rent expense of \$262,808.

The Constitution Project had previously entered into a lease agreement for office space, commencing February 1, 2013 and expiring November 30, 2018. Following the folding of The Constitution Project into POGO during December 2017, POGO will be committed to pay the remaining rent until the expiration of the lease.

POGO continued with four annual subleases, including one sublease with a non-profit organization whose Co-Director is a Board member and one sublease with an organization with which POGO's Executive Director is the Chair of the group's Steering Committee. All sublessors ended their agreements with POGO and moved out by December 2017.

Total future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 572,495
2019	329,717
2020	337,960
2021	<u>346,409</u>
	<u>\$ 1,586,581</u>

5. PENSION PLAN

POGO maintains a simplified employee pension plan for all eligible employees. Employer contributions are discretionary, subject to annual approval of the Board of Directors of POGO.

For the year ended December 31, 2017, POGO contributed 10% of each eligible employee's salary to the Plan, which totaled \$182,103. This 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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6. 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 \$18,000. POGO does not contribute to the Plan.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2017:

Program Restricted:	
Ethical, Effective and Accountable Government	\$ 5,302
Congressional Oversight Initiative	294,969
The Constitution Project	805,000
Natural Resources and Public Lands	30,000
Hurricane Harvey Relief Spending	<u>300,000</u>
Total Program Restricted	1,435,271
Time Restricted	<u>882,601</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$ <u>2,317,872</u>

8. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions for the year ended December 31, 2017, by incurring expenses, which satisfied the restricted purposes specified by the donors or passage of time:

Program Restricted:	
Ethical, Effective and Accountable Government	\$ 122,166
Congressional Oversight Initiative	82,458
CDI/Straus Military Reform Project	374,719
Inspectors General Project	121,484
Beth Daley Memorial Fund	<u>20,980</u>
Total Program Restricted	721,807
Passage of Time	<u>1,056,250</u>
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	\$ <u>1,778,057</u>

9. POGO ACTION, INC.

Due to restrictions placed on Section 501(c)(3) organizations, POGO Action Inc. (POGO Action) was created as a 501(c)(4) organization. POGO Action is organized for purposes of social welfare, including but not limited to conducting research, publicizing findings and advocating for a more effective, accountable, open and ethical Federal government, including proposing good government issues to candidates and to presidential transition teams. POGO and POGO Action entered into a Sharing Agreement in February 2016. Certain members of management and the Board of Directors of POGO also serve as management and members of the Board of Directors of POGO Action, respectively.

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10. JOINT COSTS

POGO conducts fundraising campaigns that include appeals for contributions as well as program components. As required by FASB ASC 958, *Not-for-Profit Entities*, POGO allocates the cost of the campaigns to the supported functional categories. The cost of these campaigns totaled \$257,738 for the year ended December 31, 2017.

11. THE CONSTITUTION PROJECT

The Constitution Project (TCP) determined in 2017 that it could more effectively achieve its mission by folding into another independent organization. TCP approached POGO, and POGO's Board voted to take TCP's staff, activities, assets and liabilities. An agreement was entered into on October 31, 2017 to this effect.

TCP's Board voted to dissolve on December 31, 2017 and folded into POGO, resulting in revenue and transfer of net assets to POGO of \$457,283 and \$114,318, respectively. POGO now houses TCP and continues to work on promoting bipartisan consensus on constitutional rights and values.

12. 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. These are investments where 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, 2017.

- *Mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by POGO are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by POGO are deemed to be actively traded.

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12. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, POGO's investments as of December 31, 2017:

Asset Class:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	<u>\$ 3,265,880</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,265,880</u>

13. SUBSEQUENT EVENTS

In preparing these financial statements, POGO has evaluated events and transactions for potential recognition or disclosure through May 23, 2018, the date the financial statements were issued.