

**THE REPORTERS COMMITTEE FOR
FREEDOM OF THE PRESS**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2012

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Independent Auditor's Report

To the Steering Committee
The Reporters Committee for Freedom of the Press
Arlington, VA

We have audited the accompanying financial statements of the Reporters Committee for Freedom of the Press, (the "Committee") (a nonprofit organization), which comprise the statement of assets, liabilities, and fund balances – cash basis as of December 31, 2012, and the related statements of revenue, expenses, and change in fund balances – cash basis, and functional expenses – cash basis 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 the cash basis of accounting as described in Note B; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 assets, liabilities, and fund balances of the Reporters Committee for Freedom of the Press as of December 31, 2012, and its revenue, expenses, and change in fund balances for the year then ended in accordance with the cash basis of accounting principles as described in Note B.

Basis of Accounting

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Ritros, Jones & Mausca, P.A.

May 10, 2013
Columbia, MD

**THE REPORTERS COMMITTEE FOR FREEDOM OF THE PRESS
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
CASH BASIS
DECEMBER 31, 2012**

ASSETS

CURRENT ASSETS

Cash	\$ 67,357
Investments:	
Certificates of deposit	275,090
Government bond obligations	434,730
Corporate bond obligations	2,170,895
Corporate stocks	2,561,235
Money market funds	296,213
Total investments	<u>5,738,163</u>
Total current assets	<u>5,805,520</u>

OTHER ASSETS

Security deposits	<u>7,655</u>
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TOTAL ASSETS	<u><u>\$ 5,813,175</u></u>
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FUND BALANCES

FUND BALANCES

Unrestricted fund balances	\$ 1,045,133
Restricted fund balances	<u>4,768,042</u>

TOTAL FUND BALANCES	<u><u>\$ 5,813,175</u></u>
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See independent auditor's report and accompanying notes to the financial statements.

THE REPORTERS COMMITTEE FOR FREEDOM OF THE PRESS
STATEMENT OF REVENUE, EXPENSES, AND CHANGE IN FUND BALANCES
CASH BASIS
YEAR ENDED DECEMBER 31, 2012

	Restricted						Total
	Unrestricted		Jack Nelson				
	General Operating Fund	Knight I Endowment Fund	Knight II Endowment Fund	Fellowship Fund	Other Restricted Fund	Restricted Funds Total	
REVENUE, GAINS, AND LOSSES							
Revenue							
Contributions and grants	\$ 133,747	\$ -	\$ -	\$ -	\$ 215,875	\$ 215,875	\$ 349,622
Program services	143,552	-	-	-	-	-	143,552
Publications and subscriptions	14,504	-	-	-	-	-	14,504
Special events	332,552	-	-	-	-	-	332,552
Direct fundraising event costs	(106,855)	-	-	-	-	-	(106,855)
Interest and dividends	45,702	59,350	70,103	23,985	-	153,438	199,140
Realized gains (losses)	9,236	6,913	(8,776)	(20)	-	(1,883)	7,353
Other income	10,731	-	-	-	-	-	10,731
	<u>583,169</u>	<u>66,263</u>	<u>61,327</u>	<u>23,965</u>	<u>215,875</u>	<u>367,430</u>	<u>950,599</u>
Transfers and Releases							
Transfers to operating	207,800	(104,000)	(105,000)	-	1,200	(207,800)	-
Released from restrictions	335,525	(7,202)	(7,450)	(23,963)	(296,910)	(335,525)	-
	<u>543,325</u>	<u>(111,202)</u>	<u>(112,450)</u>	<u>(23,963)</u>	<u>(295,710)</u>	<u>(543,325)</u>	<u>-</u>
Total revenue, gains, and losses	<u>1,126,494</u>	<u>(44,939)</u>	<u>(51,123)</u>	<u>2</u>	<u>(79,835)</u>	<u>(175,895)</u>	<u>950,599</u>
EXPENSES							
Program services:							
Legal defense and research	821,935	-	-	-	-	-	821,935
Support services:							
Management and general	219,771	-	-	-	-	-	219,771
Fundraising	122,663	-	-	-	-	-	122,663
Total support services	<u>342,434</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>342,434</u>
Total expenses	<u>1,164,369</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,164,369</u>
CHANGE IN FUND BALANCES	<u>(37,875)</u>	<u>(44,939)</u>	<u>(51,123)</u>	<u>2</u>	<u>(79,835)</u>	<u>(175,895)</u>	<u>(213,770)</u>
FUND BALANCES, beginning of year	<u>1,083,008</u>	<u>1,778,210</u>	<u>2,147,970</u>	<u>767,759</u>	<u>249,998</u>	<u>4,943,937</u>	<u>6,026,945</u>
FUND BALANCES, end of year	<u>\$ 1,045,133</u>	<u>\$ 1,733,271</u>	<u>\$ 2,096,847</u>	<u>\$ 767,761</u>	<u>\$ 170,163</u>	<u>\$ 4,768,042</u>	<u>\$ 5,813,175</u>

See independent auditor's report and accompanying notes to the financial statements.

THE REPORTERS COMMITTEE FOR FREEDOM OF THE PRESS
STATEMENT OF FUNCTIONAL EXPENSES
CASH BASIS
YEAR ENDED DECEMBER 31, 2012

	Program Services	Support Services		Total
	Legal Defense and Research	Management and General	Fundraising	
Personnel costs:				
Salaries and wages	\$ 498,039	\$ 137,531	\$ 96,536	\$ 732,106
Payroll taxes	38,378	10,399	7,367	56,144
Employee benefits	59,719	15,282	4,836	79,837
Subtotal personnel costs	596,136	163,212	108,739	868,087
Accounting	-	10,000	-	10,000
Bank service charges	445	891	891	2,227
Brochure	-	-	1,162	1,162
Computer research	28,454	-	-	28,454
Consultants	26,176	-	-	26,176
Dues and subscriptions	1,593	177	-	1,770
Equipment rental and mainenance	3,664	431	216	4,311
Financial advisor	-	21,830	-	21,830
Insurance	5,397	2,491	415	8,303
Marketing	500	-	334	834
Miscellaneous	5,948	699	350	6,997
Office supplies	5,231	616	308	6,155
Professional fees	-	3,500	-	3,500
Postage and delivery	4,416	519	260	5,195
Printing	23,155	1,287	1,286	25,728
Taxes and licenses	1,128	125	1,705	2,958
Rent	101,488	11,940	5,970	119,398
Telephone	7,846	922	462	9,230
Travel	9,608	1,131	565	11,304
Website design	750	-	-	750
Total	<u>\$ 821,935</u>	<u>\$ 219,771</u>	<u>\$ 122,663</u>	<u>\$ 1,164,369</u>

See independent auditor's report and accompanying notes to the financial statements.

THE REPORTERS COMMITTEE FOR FREEDOM OF THE PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE A - NATURE OF THE ORGANIZATION

The Reporters Committee for Freedom of the Press (the "Committee"), a voluntary unincorporated association, was formed in March 1970 to promote the First Amendment interest of a free press through research, dissemination of information, and assistance to members of the press in the conduct of litigation. Effective August 31, 1973, the Committee was granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code as a charitable, educational non-profit association.

The Committee provides the following services under its Legal Defense and Research programs:

The Committee provides around-the-clock, pro bono services to all news media. It offers free legal assistance and research to journalists and attorneys, files *amicus* briefs, publishes numerous handbooks and materials, and speaks out against threats to the freedom of the press. The Committee undertakes legal defense and research projects in all areas of media law.

Publications - The Committee publishes a quarterly magazine, a weekly newsletter, and various guidebooks for gathering and disseminating the news. The Committee's internet website provides content on media law and journalism, which is updated on a daily basis.

Fellowship/Internship Programs - The Committee offers law fellowships for recent law school graduates and an internship program for journalism and law students each summer and during an academic semester.

Sunshine in Government Initiative - The Committee takes the lead in the administration of a coalition of media organizations and companies committed to promoting policies that ensure the government is accessible, accountable, and open.

NOTE B- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Committee's accounts are maintained on a cash basis. The statement of revenue, expenses and changes in fund balances – cash basis – reflects only cash received and disbursed. Therefore, receivables, payables, accrued income, and expenses, which may be material in amount, are not reflected in the accompanying financial statements, which are not intended to present the financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Receipts and disbursements resulting in a gain or loss from the sale of investments are reflected in the statement of revenue, expenses and change in fund balances – cash basis – net of their cost basis. Unrealized gains and losses in the fair value of investments are not recorded.

THE REPORTERS COMMITTEE FOR FREEDOM OF THE PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

NOTE B- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Balances Classifications

The fund balances are reported in two self-balancing funds as follows:

Unrestricted Fund Balances - includes unrestricted revenue and contributions received without donor-imposed restrictions. These fund balances are available for the operations of the Committee and include both internally designated and undesignated resources.

Restricted Fund Balances - includes revenue and contributions subject to donor-imposed stipulations that will be met by either actions of the Committee and/or the passage of time. When a restriction expires, restricted fund balances are reclassified to unrestricted fund balances and reported as funds released from restrictions.

Investments

Investments in government securities, corporate bonds, certificates of deposit, and marketable equity securities are reported at cost. Money market accounts that are professionally managed are classified with investments. Interest and dividends are recorded when received.

Contributions and Grants

Contributions and grants are recorded as revenue in the year the funds are received by the donor. Contributions and grants are unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Restricted contributions and grants received in excess of expenses incurred are shown as restricted fund balances in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE REPORTERS COMMITTEE FOR FREEDOM OF THE PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 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 revenue, expenses and change in fund balances – cash basis and the statement of functional expenses – cash basis. Accordingly, certain costs have been allocated among programs and support services benefited.

NOTE C - INCOME TAXES

The Reporters Committee for Freedom of the Press is a 501(c)(3) organization that is exempt from Federal income taxes under the provisions of the Internal Revenue Code Section 501(a), except for income unrelated to their exempt purpose. The Committee recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. The Committee does not believe its financial statements include any uncertain tax positions. No provision for income taxes is reflected in the accompanying financial statements for the year ended December 31, 2012.

The Committee's income tax returns are subject to examination by the Internal Revenue Service (“IRS”) for a period of three years from the date they were filed, except under certain circumstances. The Form 990 tax returns for the years ending December 31, 2009 through 2011 are open for a tax examination by the IRS, although no request has been made as of the date of these financial statements.

NOTE D - FUND ACCOUNTING

In order to monitor the use of certain contributions and grants by the Steering Committee, the Committee maintains various funds to account for its transactions.

The Knight Endowment Fund (“Knight I”) was established in September 1999 upon receipt of the first installment of a \$2.3 million grant. The grant consisted of an operating endowment of \$2 million and \$300,000 to be used for operating support. Distributions from the endowment are subject to annual limitations based on the fair value of the endowment fund assets.

In 2005, a second Knight Endowment Fund (“Knight II”) was established upon receipt of the first installment of a \$2.5 million partial challenge grant. The grant consisted of a \$1 million matching endowment challenge, a \$1 million matching operating challenge, and \$500,000 for operating costs to be paid over five years. The Knight Foundation matched dollar-for-dollar on the endowment and operating challenge portions of the grant up to \$400,000 per year for the five-year period.

THE REPORTERS COMMITTEE FOR FREEDOM OF THE PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

NOTE D - FUND ACCOUNTING - continued

In accordance with the terms of the grant agreements, during 2012, the Committee transferred 5.5% of funds in the Knight I and II accounts to the business checking account to be used for general operating expenses. The amount transferred was calculated based on the average of 12 consecutive quarters.

The Committee also established the Jack Nelson Legal Fellowship Fund to support the expenses relating to maintaining a personnel position specifically designated for a recent law school graduate. Interest earned on monies held by the Jack Nelson Legal Fellowship Fund is available for current operations.

Restricted fund balances for the year ended December 31, 2012 are as follows:

	<u>Beginning Balance</u>	<u>Contributions/ Investment Income</u>	<u>Distributions/ Transfers</u>	<u>Ending Balance</u>
Knight I Endowment Fund	\$ 1,778,210	\$ 66,263	\$ (111,202)	\$ 1,733,271
Knight II Endowment Fund	2,147,970	61,327	(112,450)	2,096,847
Jack Nelson Legal Fellowship Fund	767,759	23,965	(23,963)	767,761
Special Projects	249,998	215,875	(295,710)	170,163
Total	<u>\$ 4,943,937</u>	<u>\$ 367,430</u>	<u>\$ (543,325)</u>	<u>\$ 4,768,042</u>

NOTE E - INVESTMENTS

Investments are carried at cost and consist of the following as of December 31, 2012:

	<u>Cost</u>	<u>Fair Value</u>
U.S. Government and government agency bond obligations	\$ 434,730	\$ 454,209
Corporate bond obligations	2,170,895	2,252,918
Corporate stocks	2,561,235	3,365,020
Certificates of deposit	275,090	273,649
Money market funds	296,213	296,213
Total	<u>\$ 5,738,163</u>	<u>\$ 6,642,009</u>

THE REPORTERS COMMITTEE FOR FREEDOM OF THE PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(continued)

NOTE F – LEASE COMMITMENTS

The Committee has a five-year lease for office space that expires on December 31, 2014. The Committee also has a sublease agreement with the Student Press Law Center, a nonprofit association, which expires on December 31, 2014.

Minimum future rental payments and rental income commitments under the non-cancelable leases are as follows:

Year ending December 31,	<u>Lease</u>	<u>Sublease</u>
2013	172,768	51,830
2014	178,800	53,640

Rent expense totaled \$119,398 for the year ended December 31, 2012, which does not include \$50,080 paid directly to the landlord by the sub-lessee.

NOTE G – PENSION PLAN

The Committee sponsors a 401(k) plan, which covers substantially all employees over 21 years of age who have completed one year of service. Employees may contribute up to 90% of their compensation to the 401(k) plan, subject to certain Internal Revenue Service (IRS) requirements. The Committee matched deferred employee contributions in an amount equal to 100% of the first 5% of compensation employees contributed to the 401(k) plan. Total employer matching contributions to the retirement plan for the year ended December 31, 2012 totaled \$25,776.

NOTE H – OTHER INCOME

The Committee has a reimbursement agreement with the Student Press Law Center for office-related expenses and joint services such as telephone, postage, copier maintenance, etc., incurred by the Committee on behalf of the Student Press Law Center. For the year ended December 31, 2012, reimbursed expenses totaled \$9,225. The Committee also received a \$1,341 rebate of health insurance premiums as required by the Affordable Care Act. These reimbursements are reported in other income on the Statement of Revenue, Expenses, and Change in Fund Balances.

NOTE I – SUBSEQUENT EVENTS

In preparing these financial statements, the Committee has evaluated events and transactions for potential recognition or disclosure through May 10, 2013 the date the financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation that required further disclosure.