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MANAGEMENT LETTER

March 8, 2011

Members of the Audit Committee
Bay Area News Project
126 Post Street, Suite 500
San Francisco, California 94108

Dear Members of the Audit Committee:

We have recently concluded our audit of the financial statements of the Bay Area News Project (BANP) for the year ended December 31, 2010 and we are presenting our comments and recommendations to management. This communication is intended to satisfy the requirements of Statement on Auditing Standards No. 115 (SAS 115), which requires an auditor to communicate internal control related matters identified in an audit to those charged with governance (formerly SAS 112).

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization.

Our testwork of the internal accounting control system disclosed no material weaknesses.

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us by personnel of the Bay Area News Project during the course of our examination.

Sincerely,


Douglas W. Regalia, Partner
REGALIA & ASSOCIATES, CPAs

Bay Area News Project

LETTER TO MANAGEMENT

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No Material Weakness

In planning and performing our audit of the financial statements of the Bay Area News Project for the year ended December 31, 2010, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the Bay Area News Project is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

A material weakness is a significant deficiency in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses as defined above.

Based on the testwork we performed and the documents we examined, we are not aware of any material weaknesses in the Bay Area News Project's operations.



THE BAY AREA NEWS PROJECT

Financial Statements

For the Period January 5, 2010
(Date of Inception)
Through December 31, 2010

With Independent Auditors' Report

THE BAY AREA NEWS PROJECT

(A California Not-For-Profit Corporation)
December 31, 2010

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THE BAY AREA NEWS PROJECT

(A California Not-For-Profit Corporation)

December 31, 2010

History

The news industry is in a period of immense flux. Over the past five years, the San Francisco Bay Area, mirroring national trends, has experienced a precipitous decline in professional newsroom staff and in original reporting of civic and cultural news.

Concerned about the negative impact of this decline on the community, in early 2009 local philanthropist Warren Hellman convened an advisory committee to examine the issue and offer possible solutions. In January 2010, after many months of research and planning, and with a generous \$5 million contribution from the Hellman Family Foundation, The Bay Citizen (first known as the Bay Area News Project) was founded.

In January, The Bay Citizen's board of directors hired Lisa Frazier, formerly the head of McKinsey & Company's West Coast Media and Entertainment practice, as President and CEO. Ms. Frazier led the advisory committee's research, planning and strategy efforts throughout 2009 which resulted in the founding of The Bay Citizen. With Ms. Frazier's leadership, The Bay Citizen formed collaborations with leading journalism institutions including The New York Times and the University of California, Berkeley Graduate School of Journalism, and recruited an award-winning newsroom headed by Industry Standard veteran Jonathan Weber, as well as a leading-edge technology team under Chief Technology Officer Brian Kelley.

On May 26, 2010, The Bay Citizen launched its online content on www.baycitizen.org. On June 4, 2010, The Bay Citizen's newsroom began producing the articles featured in the two-page Bay Area Report in The New York Times' print editions, which are delivered to over 61,000 Bay Area New York Times subscribers on Fridays and Sundays. Over time, The Bay Citizen also plans to distribute news through podcasts, radio, and potentially TV.

Mission

The mission of the Bay Citizen is to enhance civic and community news coverage in the San Francisco Bay Area, foster civic engagement, and stimulate innovation in journalism.

Bay Area News Project - Board of Directors

Name	Position	Name	Position
F. Warren Hellman	Chairman	Susan Hirsch	Board Member
		Jeffrey Ubben	Board Member
Professor Neil Henry	Board Member	Diane Wilsey	Board Member
Dr. Sandra R. Hernández	Board Member	Andrew Woeber	Board Member

Lisa Frazier
President & CEO, The Bay Citizen

INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Bay Area News Project

We have audited the accompanying statement of financial position of The Bay Area News Project (a non-profit corporation) as of December 31, 2010 and the related statements of activities and changes in net assets, cash flows and functional expenses for the period January 5, 2010 (date of inception) through December 31, 2010. These financial statements are the responsibility of The Bay Area News Project management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Bay Area News Project as of December 31, 2010 and the results of its operations and its cash flows for the period January 5, 2010 (date of inception) through December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

Danville, California
March 31, 2011

Regalia & Associates

THE BAY AREA NEWS PROJECT

Statement of Financial Position December 31, 2010

ASSETS

Current assets:

Cash and cash equivalents	\$ 3,531,116
Grants and pledges receivable, net (short-term portion)	3,052,350
Prepaid expenses and other current assets	100,768
Total current assets	<u>6,684,234</u>

Noncurrent assets:

Grants and pledges receivable, net (long-term portion)	1,260,959
Property, equipment and improvements, net	102,066
Total noncurrent assets	<u>1,363,025</u>
	<u>\$ 8,047,259</u>

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	\$ 24,712
Accrued payroll liabilities	39,921
Grant payable	250,000
Total current liabilities	<u>314,633</u>

Net assets:

Unrestricted	3,169,617
Temporarily restricted	4,563,009
Total net assets	<u>7,732,626</u>
	<u>\$ 8,047,259</u>

THE BAY AREA NEWS PROJECT

Statement of Activities and Changes in Net Assets For the Period January 5, 2010 (Date of Inception) Through December 31, 2010

<i>Changes in net assets:</i>	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
Revenue and support:			
Contributed income:			
Individuals	\$ 1,088,376	\$ 2,064,629	\$ 3,153,005
Foundations	5,220,543	2,670,171	7,890,714
Corporations	178,719	-	178,719
In-kind donations	217,843	-	217,843
Estimated allowance for uncollectible receivables	-	(54,350)	(54,350)
Discount applied to multi-year receivables	-	(117,441)	(117,441)
Total contributed income	<u>6,705,481</u>	<u>4,563,009</u>	<u>11,268,490</u>
Earned income:			
Royalty services	89,900	-	89,900
Interest and dividends	3,594	-	3,594
Other operating income	27	-	27
Total earned income	<u>93,521</u>	<u>-</u>	<u>93,521</u>
 Total revenue and support	 <u>6,799,002</u>	 <u>4,563,009</u>	 <u>11,362,011</u>
 Expenses:			
Program services:			
Newsroom	1,915,714	-	1,915,714
Online	651,264	-	651,264
Membership	414,182	-	414,182
Total program services	<u>2,981,160</u>	<u>-</u>	<u>2,981,160</u>
Support services:			
Management and general	233,958	-	233,958
Development	351,757	-	351,757
Sponsorship and media sales	62,510	-	62,510
Total support services	<u>648,225</u>	<u>-</u>	<u>648,225</u>
 Total expenses	 <u>3,629,385</u>	 <u>-</u>	 <u>3,629,385</u>
 Increase in net assets	 3,169,617	 4,563,009	 7,732,626
Net assets at beginning of year	-	-	-
Net assets at end of year	<u>\$ 3,169,617</u>	<u>\$ 4,563,009</u>	<u>\$ 7,732,626</u>

See accompanying auditors' report and notes to financial statements.

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THE BAY AREA NEWS PROJECT

Statement of Cash Flows For the Period January 5, 2010 (Date of Inception) Through December 31, 2010

Operating activities:

Increase in net assets	\$ 7,732,626
Adjustments to reconcile to cash provided by (used for) operating activities:	
Depreciation	22,114
Estimated allowance for uncollectible receivables	54,350
Discount applied to multi-year receivables	117,441
Changes in:	
Grants and pledges receivable	(4,485,100)
Prepaid expenses and other current assets	(100,768)
Accounts payable and accrued expenses	24,712
Accrued payroll liabilities	39,921
Grant payable	250,000
	<hr/>
Cash provided by operating activities	3,655,296

Investing activities:

Additions to property, equipment and improvements	<hr/> (124,180)
Cash used for investing activities	<hr/> (124,180)
Increase in cash and cash equivalents	3,531,116
Cash and cash equivalents at beginning of year	<hr/> -
Cash and cash equivalents at end of year	<hr/> \$ 3,531,116

Additional cash flow information:

State filing taxes paid	<hr/> \$ -
Interest paid	<hr/> \$ -

THE BAY AREA NEWS PROJECT

**Statement of Functional Expenses
For the Period January 5, 2010 (Date of Inception) Through December 31, 2010**

	Newsroom	Online	Membership	Total Program Services	Management and General	Develop- ment	Sponsorship and Media Sales	Total Support Services	Total Expenses
Personnel	\$ 1,266,635	\$ 503,078	\$ 183,962	\$ 1,953,675	\$ 171,481	\$ 239,750	\$ 50,277	\$ 461,508	\$ 2,415,183
Professional services	82,888	15,554	10,796	109,238	32,969	4,231	1,448	38,648	147,886
Meetings and travel	24,469	5,529	25,240	55,238	1,513	13,023	266	14,802	70,040
Fundraising	-	-	-	-	-	58,828	-	58,828	58,828
Office and overhead	13,421	8,143	6,798	28,362	1,650	6,601	364	8,615	36,977
Newsroom support	180,438	16	293	180,747	4	3,604	1	3,609	184,356
Marketing and promotion	16,122	6,197	39,045	61,364	1,481	2,095	577	4,153	65,517
Member services	-	-	99,895	99,895	-	-	-	-	99,895
Technology infrastructure	46,520	55,504	9,631	111,655	4,138	6,705	1,611	12,454	124,109
Occupancy and insurance	130,548	34,998	15,178	180,724	15,587	9,362	3,078	28,027	208,751
In-kind expenses	154,676	22,246	23,340	200,262	5,135	7,559	4,887	17,581	217,843
Totals	\$ 1,915,717	\$ 651,265	\$ 414,178	\$ 2,981,160	\$ 233,958	\$ 351,758	\$ 62,509	\$ 648,225	\$ 3,629,385

THE BAY AREA NEWS PROJECT

Notes to Financial Statements December 31, 2010

1. Organization

The Bay Area News Project (BANP) was incorporated in California on January 5, 2010, as a California nonprofit public benefit corporation. BANP then founded and created The Bay Citizen, a nonpartisan news organization dedicated to fact-based, independent reporting on civic and community issues in the San Francisco Bay Area.

The Bay Citizen's newsroom of award-winning journalists covers Bay Area civic and cultural news topics that are under-reported. The Bay Citizen also partners widely with independent media organizations and writers to bring readers the best of Bay Area news. Readers can find news on The Bay Citizen's website and in The New York Times' Bay Area report. The Bay Citizen is also developing mobile applications to allow readers greater access to on-line content.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of BANP have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958.205, *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASC 958.205, BANP 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.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues, and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

BANP considers all highly liquid investments with a maturity commitment of 90 days or less when acquired to be cash equivalents. BANP maintains its cash balances in high quality financial institutions, which at times may exceed federally insured limits. BANP has not experienced any losses in such accounts.

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Property, Equipment, and Improvements

Property and equipment are valued at cost or, if donated, at fair market value on the date of donation. Depreciation is provided by use of the straight-line method over the estimated useful lives of the assets. The cost of property and equipment which exceeds a certain dollar threshold is capitalized and depreciated over the estimated useful life of each class of depreciable asset.

Fair Values

BANP follows the provisions of ASC 820, *Fair Value Measurements and Disclosures*, and has estimated the fair value of its current assets using available market information and other valuation methodologies. Accordingly, the estimates presented are not necessarily indicative of the amounts that BANP could realize in a current market exchange. The use of different assumptions and/or estimation methods may have a material effect on the estimated fair value amounts. The estimates are based on pertinent information available to management as of December 31, 2010. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from the statements presented.

Net Assets

In accordance with accounting principles generally accepted in the United States of America, financial statements must present classes of net assets based on the following categories: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Grants and contributions are classified in the appropriate net asset category based on the absence or existence of donor-imposed restrictions that limit the use of the donated assets if they are designated as support for future periods or future projects when they are received.

BANP reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor's intended purpose is met or a time restriction expires, the temporarily restricted net asset is transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as unrestricted support.

Permanently restricted net assets include those net assets that must be maintained in perpetuity in accordance with donor restrictions. The investment return from such assets may be used for purposes as specified by the donor or, if the donor has not specified a purpose, the income from such investments is not restricted and is included in unrestricted net assets. BANP had no permanently restricted net assets as of December 31, 2010.

Unrestricted net assets include all of those donated assets that have no restrictions or limitations imposed on their use. The Board of Directors may elect certain unrestricted funds to be set aside as Board designated funds, which may not be spent without approval by the Board. No such funds were set-aside at December 31, 2010.

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Revenue and Support Recognition

BANP receives revenue from a variety of sources, including contributed income and royalties from published material.

The Center records contributions in accordance with the recommendations of ASC 958.605, *Revenue Recognition of Not-for-Profit Entities*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions, as discussed below under "Contributions."

Contributions

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in unrestricted net assets. BANP reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods.

When a donor's intended purpose is met or a time restriction expires, the temporarily restricted net asset is transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions in which the donor restrictions are never relieved are recorded as permanently restricted support.

Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as unrestricted support.

Donated property is recorded at the estimated fair value at the date of receipt. BANP reports gifts of property as unrestricted support unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, BANP reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributed Services and Costs

Contributed services and costs are reflected at the fair value of the contribution received in accordance with ASC 958.605.30-11. The contributions of services and costs are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

THE BAY AREA NEWS PROJECT

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Income Taxes

Financial statement presentation follows the recommendations of ASC 740, *Income Taxes*. Under ASC 740, BANP is required to report information regarding its exposure to various tax positions taken by BANP and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that BANP has adequately addressed all tax positions and that there are no unrecorded tax liabilities.

BANP has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 27301d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities and management is confident that BANP continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status.

BANP may periodically receive unrelated business income (such as sublease rental income, advertising income, etc.) requiring BANP to file separate tax returns under federal and state statutes. BANP also has certain transactions requiring the payment of value added taxes. Under such conditions, BANP calculates and accrues the applicable taxes.

Functional Allocation of Expenses

The costs of providing BANP's various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

3. Cash and Cash Equivalents

Cash and cash equivalents include all funds in banks (checking, savings, and money market) at the time of purchase that have a maturity date of 90 days or less. The components of cash and cash equivalents are as follows at December 31, 2010:

Bank checking account (noninterest-bearing)	\$ 1,225,463
Savings account (bearing interest at 0.36% per annum)	2,305,653
Total cash and cash equivalents	<u>\$ 3,531,116</u>

At December 31, 2010, certain accounts exceeded the FDIC insured limit, resulting in \$2,120,467 in funds that were not covered by insurance provided by the federal government. It is the opinion of management that the solvency of the referenced financial institutions is satisfactorily strong and that BANP's financial position will not be compromised.

continued

THE BAY AREA NEWS PROJECT

Notes to Financial Statements

3. Cash and Cash Equivalents *(continued)*

Cash and cash equivalents are classified as Level 1 assets. Level 1 measurement reflects the value of marketable assets at quoted prices in active markets for identical assets. Level 2 measurement reflects the value of the investments using significant other observable inputs. Level 3 measurement reflects the value of the investments using significant unobservable inputs. BANP had no marketable classified as Level 2 or Level 3 at December 31, 2010.

4. Grants and Pledges Receivable

Grants and pledges receivable at December 31, 2010 are expected to be collected as follows:

Year ending December 31, 2011	\$ 3,070,100
Year ending December 31, 2012	527,000
Year ending December 31, 2013	444,000
Year ending December 31, 2014	444,000
Total grants and pledges receivable	<u>4,485,100</u>
Less: discount applied to multi-year receivables	(117,441)
Less: estimated allowance for uncollectible balances	(54,350)
Total amount due with one year	<u>(3,052,350)</u>
Amount due after one year, discounted at 3.0%	<u>\$ 1,260,959</u>

Grants and pledges receivable due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 3.0% per annum. The discount related to the present value calculation is being accreted back into income over the estimated collection period of the grants and pledges receivable.

5. Property, Equipment and Improvements

A summary of property, equipment and improvements is as follows at December 31, 2010:

Furniture, fixtures and equipment	\$ 11,390
Website and database	102,290
Leasehold improvements	10,500
Subtotal	<u>124,180</u>
Less: accumulated depreciation	(22,114)
Total property, equipment and improvements (net)	<u>\$ 102,066</u>

Total depreciation expense for the period January 5, 2010 (date of inception) through December 31, 2010 amounted to \$22,114 and is included in occupancy and insurance expense on the statement of functional expenses.

THE BAY AREA NEWS PROJECT

Notes to Financial Statements

6. History of Major Revenue Sources

The news industry has been in a period of immense flux. Over the past several years, the San Francisco Bay Area, mirroring national trends, has experienced a precipitous decline in professional newsroom staff and in original reporting of civic and cultural news.

Concerned about the negative impact of this decline on the community, in early 2009 local philanthropist Warren Hellman convened an advisory committee to examine the issue and offer possible solutions. In January 2010, after many months of research and planning, and with a generous \$5 million contribution from the Hellman Family Foundation, BANP was founded.

BANP has been, and continues to be, financially dependent on the generosity of several large donations and some of the most significant funding grants are summarized as follows:

Starting in 2009 and continuing into 2010, BANP was awarded a \$5,000,000 unrestricted grant from the Hellman Family Foundation.

In 2010, BANP was awarded a \$1,050,000 restricted grant from Jeff and Laurie Ubben payable in 2011.

In 2010, BANP was awarded a \$1,000,000 restricted grant from Diane B. Wilsey payable in installments through 2014.

In 2010, BANP was awarded a \$1,000,000 restricted grant from Evelyn and Walter Haas Jr. Foundation payable in installments through 2014.

In 2010, BANP was awarded a \$975,000 restricted grant from John S. and James L. Knight Foundation payable in installments through 2011.

In 2010, BANP also was awarded grants ranging from \$10,000 to \$612,500 from other philanthropic individuals and foundations and intends to become less reliant on such contributions as it develops an economic model which taps other financial revenue streams such as on-line advertising, membership fees, corporate sponsorships and licensing.

7. Grant Payable

In December 2010, BANP was awarded a \$975,000 grant from the John S. and James L. Knight Foundation. The grant is payable over a 15-month period and is to be used to support the free publishing software for two of the leading nonprofit news organizations: BANP and The Texas Tribune. Grant payable of \$250,000 at December 31, 2010 represents that portion of the grant which belongs to The Texas Tribune and BANP will remit the funds when the terms of the grant agreement have been satisfied.

THE BAY AREA NEWS PROJECT

Notes to Financial Statements

8. Lease Commitments

BANP leases its corporate office space under a three-year operating lease expiring in May 2013. The office lease requires rental payments of \$13,433 per month as of December 31, 2010, with stipulated rent increases to \$13,950 per month effective May 2011 and then to \$14,467 per month effective May 2012. BANP is responsible for its proportionate share of building, maintenance and operating expenses which includes taxes, insurance, and utilities.

BANP is also obligated under an operating lease agreement for office equipment and a news subscription agreement which require certain fixed monthly rental payments. Minimum future lease payments for all operating leases with terms of one year or more are as follows at December 31, 2010 (including office space, office equipment and subscription agreement):

Year ending December 31, 2011	\$ 170,963
Year ending December 31, 2012	182,853
Year ending December 31, 2013	64,321

Rent expense for all operating leases amounted to \$88,497 for the period January 5, 2010 (date of inception) through December 31, 2010.

Other Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and grant agreements and the performance of services (in order to receive funding from certain individuals and foundations), the costs of which are not reflected in the financial statements (because they have not yet been incurred). Management believes that such commitments or contingencies will not have a material adverse effect on the financial statements.

9. Temporarily Restricted Net Assets

BANP recognizes support from temporarily restricted net assets when the restrictions imposed by the donors have been satisfied or expired. Temporarily restricted net assets consist of the following as of December 31, 2010:

Contributions subject to time restrictions	\$ 4,734,500
Estimated allowance for uncollectible balances	(54,050)
Discount applied to multi-year receivables	(117,441)
Total temporarily restricted net assets (net)	<u>\$ 4,563,009</u>

10. Estimated Allowance for Uncollectible Balances

During the year ended December 31, 2010, BANP calculated \$54,050 in amounts representing the estimated uncollectible portion of all grants and pledges receivable. This amount has been reflected on the statement of activities and changes in net assets impacting the change in temporarily restricted net assets for the period January 5, 2010 (date of inception) through December 31, 2010.

THE BAY AREA NEWS PROJECT

Notes to Financial Statements

11. Retirement Plan

Effective February 2, 2011, BANP offers employees the opportunity for participation in a salary reduction retirement plan qualified under Internal Revenue Code Section 401(k) Plan as a Retirement Savings Plan (the "Plan"). The Plan is a defined contribution plan and is operated by The Hartford Life Insurance Company. The Plan provides employees with the opportunity to defer a portion of their salary subject to annual statutory limitations. The Plan requires employees be employed three months, be 18 years of age, and expected to work at least 1,000 hours in a 12 month consecutive period in order to be eligible to participate in the Plan. BANP will match employee contributions up to 50% of the employee's 401(k) contributions (for the payroll period) up to \$1,000 for each Plan year. The maximum amount is discretionary and established annually by the Board of Directors. Employer contributions vest over a period of three years.

12. In-Kind Contributions

During the year ended December 31, 2010, BANP was the recipient of a substantial amount of in-kind contributions. The values of these contributions, as reflected in the financial statements, are as follows:

Advertising and marketing	\$	9,838
Food and wine		2,820
Legal services		135,685
Public relations		63,000
Venue fee		6,500
Total in-kind contributions	\$	<u>217,843</u>

13. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of ASC 710.25, *Compensated Absences*. Under ASC 710.25, BANP is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Annual leave accruals are recorded in the financial statements as an accrued liability on the statement of financial position based on hourly rates in effect at the end of the fiscal year.

14. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, BANP has evaluated subsequent events through March 31, 2011, the date the financial statements were available to be issued. Other than the establishment of a retirement plan as described in Note 11, there are no additional subsequent events which need to be disclosed.