

PUBLIC.RESOURCE.ORG, INC.
(A Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

For the Year Ended December 31, 2008

CONTENTS

| | <u>Page</u> |
|---------------------------------|-------------|
| Independent Auditor's Report | 1 |
| Financial Statements | |
| Statement of Financial Position | 2 |
| Statement of Activities | 3 |
| Statement of Cash Flows | 4 |
| Notes to Financial Statements | 5 - 8 |
| Supplementary Information | |
| Schedule of Functional Expenses | 10 |

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Public.Resource.Org, Inc.
Sebastopol, California

We have audited the accompanying statement of financial position of Public.Resource.Org, Inc. (a nonprofit public benefit corporation) as of December 31, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's 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 Public.Resource.Org, Inc. as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 5 to the financial statements, the Organization has suffered recurring significant reductions in grant revenues and limited cash flows to support operations, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters also are described in Note 5. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the basic financial statements of Public.Resource.Org, Inc. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Doran & Associates

March 12, 2009

PUBLIC.RESOURCE.ORG, INC.
(A Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
December 31, 2008

ASSETS

| | |
|--|--------------------------|
| Current assets: | |
| Cash and cash equivalents (Note 1) | \$ 63,711 |
| Grants receivable (Note 1) | <u>20,000</u> |
| Total current assets | 83,711 |
| Intangible assets (Note 1) | 12,400 |
| Furniture and equipment, net of accumulated depreciation of \$21,917 (Notes 1 and 2) | <u>82,275</u> |
| Total assets | <u><u>\$ 178,386</u></u> |

LIABILITIES AND NET ASSETS

| | |
|---------------------------------------|--------------------------|
| Current liabilities: | |
| Accounts payable and accrued expenses | \$ <u>993</u> |
| Total liabilities | <u>993</u> |
| Unrestricted net assets | <u>177,393</u> |
| Total net assets | <u>177,393</u> |
| Total liabilities and net assets | <u><u>\$ 178,386</u></u> |

The accompanying notes are an integral part of these financial statements.

PUBLIC.RESOURCE.ORG, INC.
(A Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008

| | Unrestricted | Temporarily Restricted | Total |
|---|-------------------|---------------------------|-------------------|
| SUPPORT, REVENUE AND RELEASES | | | |
| Public support: | | | |
| Grants | \$ 739,000 | \$ - | \$ 739,000 |
| Contributions | 7,845 | - | 7,845 |
| In-kind contributions, related party (Notes 1 and 3) | 32,500 | - | 32,500 |
| Interest income | 282 | - | 282 |
| Net assets released from restriction (Note 4) | <u>153,152</u> | <u>(153,152)</u> | <u>-</u> |
| Total support, revenue and releases | <u>932,779</u> | <u>(153,152)</u> | <u>779,627</u> |
| EXPENSES | | | |
| Program services | 1,078,036 | - | 1,078,036 |
| General and administrative | 39,625 | - | 39,625 |
| Fundraising | <u>5,465</u> | <u>-</u> | <u>5,465</u> |
| Total expenses | <u>1,123,126</u> | <u>-</u> | <u>1,123,126</u> |
| Change in net assets | (190,347) | (153,152) | (343,499) |
| Net assets, beginning of year | <u>367,740</u> | <u>153,152</u> | <u>520,892</u> |
| Net assets, end of year | <u>\$ 177,393</u> | <u>\$ -</u> | <u>\$ 177,393</u> |

The accompanying notes are an integral part of these financial statements.

PUBLIC.RESOURCE.ORG, INC.
(A Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|---|------------------|
| Change in net assets | \$ (343,499) |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | |
| Depreciation | 16,168 |
| In-kind contributions | (32,500) |
| Changes in assets and liabilities: | |
| Grants receivable | 330,000 |
| Accounts payable and accrued expenses | (2,643) |
| Grant payable | <u>(250,000)</u> |
| Total adjustments | <u>61,025</u> |
| Net cash used by operating activities | <u>(282,474)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | |
|--|------------------|
| Purchase of furniture and equipment | <u>(26,604)</u> |
| Net decrease in cash and cash equivalents | (309,078) |
| Cash and cash equivalents, beginning of year | <u>372,789</u> |
| Cash and cash equivalents, end of year | <u>\$ 63,711</u> |

Supplementary information:

| | |
|-------------------------|------------------|
| In-kind contributions: | |
| Intangible assets | \$ 12,400 |
| Furniture and equipment | <u>20,100</u> |
| | <u>\$ 32,500</u> |

The accompanying notes are an integral part of these financial statements.

PUBLIC.RESOURCE.ORG, INC.
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2008

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Public.Resource.Org, Inc. (the Organization) was founded April 13, 2007, to create, architect, design, implement, operate and maintain public works projects on the Internet. The Organization's primary source of revenue is grant income.

Basis of Presentation - Resources are classified for accounting and reporting purposes into three classes of net assets, according to externally imposed restrictions:

Unrestricted net assets - Net assets that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year.

Temporarily restricted net assets - Net assets resulting (a) from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, (b) from other asset enhancements and diminishments that are subject to the same kind of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets - Net assets resulting (a) from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization, (b) from other asset enhancements and diminishments that are subject to the same kinds of stipulations, and c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

There were no temporarily or permanently restricted net assets as of December 31, 2008.

Method of Accounting - The financial statements of the Organization are prepared using the accrual basis of accounting, which reflects revenue when earned and expenses as incurred.

Cash and Cash Equivalents - Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

Accounts and Grants Receivable - It is the practice of the Organization to expense uncollectibles only after exhausting all efforts to collect the amounts due. There is no allowance for doubtful accounts and management believes all amounts will be collected in full.

In-kind Contributions - Contributions of goods are recorded at their fair market value at the date of the contribution. During the year ended December 31, 2008, the Organization received \$20,100 worth of computer and video equipment, net of cash paid for the equipment, and a domain name appraised at \$12,400 from a related party (see Note 3).

PUBLIC.RESOURCE.ORG, INC.
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2008

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets - The Organization holds title of a domain name, appraised at \$12,400, which was donated by a related party (see Note 3). The Organization evaluates the value of this intangible whenever events or changes in circumstances indicate the carrying value not be recoverable.

Contributions - Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Furniture and Equipment - The Organization records furniture and equipment in excess of \$5,000 at historical cost or, if donated, at fair market value at the date of donation. Prior to 2008, the Organization had a capitalization threshold of \$250. Depreciation is determined on the straight-line method over the estimated useful life of 5 years.

Income Taxes - The Organization is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, and is considered by the IRS to be an organization other than a private foundation. In the opinion of management, there is no unrelated business income.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

Furniture and equipment, at cost

| | |
|----------------------------|---------------|
| Balance, December 31, 2007 | \$ 57,488 |
| Additions | <u>46,704</u> |

| | |
|----------------------------|----------------|
| Balance, December 31, 2008 | <u>104,192</u> |
|----------------------------|----------------|

Accumulated depreciation

| | |
|----------------------------|---------------|
| Balance, December 31, 2007 | 5,749 |
| Depreciation expense | <u>16,168</u> |

| | |
|----------------------------|---------------|
| Balance, December 31, 2008 | <u>21,917</u> |
|----------------------------|---------------|

| | |
|------------------------------|-------------------------|
| Furniture and equipment, net | <u><u>\$ 82,275</u></u> |
|------------------------------|-------------------------|

PUBLIC.RESOURCE.ORG, INC.
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2008

NOTE 3 RELATED PARTY TRANSACTIONS

The Organization has contracted with several related parties for services and office space. A one-year agreement beginning July 1, 2007, has been signed with Dover Beach Consulting, which is owned by a Board member. The contract calls for monthly fees of \$3,500, on an as-needed basis. In 2008, the Organization paid \$17,500 for these services.

An agreement has also been signed with Point.B Studio, which is owned by a related party to the President and CEO. The contract calls for monthly fees of \$3,500, on an as-needed basis. In 2008, the Organization paid \$23,400 for these services.

The Organization has also signed a month-to-month lease for office space and data communication access with O'Reilly Media, which is owned by a Board member. The lease calls for monthly base rent of \$550 for a one-person space plus \$66 per month for each additional person working in the office. Additionally, O'Reilly Media charges \$40 per person per month for data communications access. In 2008, the Organization paid \$6,808 in rent for use of the space.

In 2008, the President and CEO sold to the Organization computer and video equipment appraised at \$34,100 for \$14,000. The balance of \$20,100 was recorded as an in-kind contribution. He also donated a domain name for exclusive use of the Organization, appraised at \$12,400, which was also recorded as an in-kind contribution (see Note 1).

All related party transactions were approved by a vote of the disinterested Board members.

NOTE 4 TEMPORARILY RESTRICTED NET ASSETS RELEASED FROM RESTRICTIONS

In the prior year, contributions were received with donor stipulations that limited the use of the assets for specific purposes and/or for specific time periods. In 2008, the Organization fulfilled donor restrictions and the following amounts were released:

| | |
|--|--------------------------|
| Fastcase | \$ 150,000 |
| Open Government Working Group Meetings | <u>3,152</u> |
| | <u><u>\$ 153,152</u></u> |

PUBLIC.RESOURCE.ORG, INC.
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2008

NOTE 5 GOING CONCERN

As shown in the accompanying financial statements, the Organization has incurred significant losses in 2008, and as of December 31, 2008, only had cash and cash equivalents sufficient to support operations for several months. These factors raise substantial doubt about the Organization's ability to continue as a going concern. Management has instituted a cost reduction plan that includes maintaining a reduced level of staff and developing additional funding from new and existing funding sources. Management believes these factors will contribute to achieving profitability. The accompanying financial statements do not include any adjustments that might be necessary if the Organization is unable to continue as a going concern.

SUPPLEMENTARY INFORMATION

PUBLIC.RESOURCE.ORG, INC.
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2008

| | Program | Management and General | Fundraising | Total |
|--------------------------|---------------------|---------------------------|-----------------|---------------------|
| Grants expense | \$ 75,500 | \$ - | \$ - | \$ 75,500 |
| Salaries and benefits | 175,298 | 9,331 | 2,000 | 186,629 |
| Printing | 2,839 | - | 316 | 3,155 |
| Occupancy | - | 6,808 | - | 6,808 |
| Postage and delivery | - | 1,514 | 1,010 | 2,524 |
| Professional fees | 22,983 | 13,400 | - | 36,383 |
| Contract labor | 65,400 | - | - | 65,400 |
| Fees and permits | - | 222 | - | 222 |
| Meetings and conferences | 11,636 | - | 1,293 | 12,929 |
| Miscellaneous | - | 993 | - | 993 |
| Supplies | 2,588 | 5,030 | 846 | 8,464 |
| Equipment | 10,007 | - | - | 10,007 |
| Support contracts | 1,555 | - | - | 1,555 |
| Depreciation expense | 15,360 | 808 | - | 16,168 |
| Insurance | - | 1,519 | - | 1,519 |
| Purchase of public data | 686,670 | - | - | 686,670 |
| Travel | 8,200 | - | - | 8,200 |
| Total expenses | <u>\$ 1,078,036</u> | <u>\$ 39,625</u> | <u>\$ 5,465</u> | <u>\$ 1,123,126</u> |