Pro Bono Net, Inc.

Financial Statements
December 31, 2009 and 2008

# Pro Bono Net, Inc. Contents December 31, 2009 and 2008

	Page(s)
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6_0



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# **Independent Auditors' Report**

To the Board of Directors Pro Bono Net, Inc.

We have audited the accompanying statements of financial position of Pro Bono Net, Inc. (the "Company") as of December 31, 2009 and 2008, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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 Pro Bono Net, Inc. as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

New York, N.Y.

Werson UP

July 21, 2010



Statements of Financial Position December 31, 2009 and 2008 Pro Bono Net, Inc.

				2009				2008	
	Unre	Unrestricted	Tem	Temporarily Restricted		Total	Unrestricted	Temporarily Restricted	Total
Assets Current assets Cash and cash equivalents Program receivables Contributions receivable Prepaid expenses	€9	479,075 447,520 5,237 29,947	<b>∞</b>	222,719	<b>∞</b>	701,794 447,520 346,225 29,947	\$ 426,176 258,397 - 31,409	\$ 182,522	\$ 608,698 258,397 412,500 31,409
Total current assets		961,779		563,707	Ť	1,525,486	715,982	595,022	1,311,004
Software, furniture and equipment, net		289,924		•		289,924	478,832	•	478,832
Deposit		10,672		'		10,672	10,672		10,672
Total assets	\$ 1,	1,262,375	€	563,707	\$ 1,	1,826,082	\$1,205,486	\$ 595,022	\$ 1,800,508
Liabilities and Net Assets Current liabilities Accounts payable and accrued expenses Deferred revenue	8	127,256 277,144	<b>∞</b>	' '	<b>↔</b>	127,256 277,144	\$ 111,743 197,048	 ₩	\$ 111,743 197,048
Total current liabilities		404,400		'		404,400	308,791		308,791
Commitments									
Net Assets Unrestricted Temporarily restricted		857,975		563,707		857,975 563,707	896,695	595,022	896,695 595,022
Total net assets		857,975		563,707	1	1,421,682	896,695	595,022	1,491,717
Total liabilities and net assets	\$ 1,	\$ 1,262,375	<b>↔</b>	563,707	\$ 1,	1,826,082	\$1,205,486	\$ 595,022	\$ 1,800,508

Statements of Activities and Changes in Net Assets Years Ended December 31, 2009 and 2008 Pro Bono Net, Inc.

		2009				2008	
	Unrestricted	Temporarily Restricted	<b>&amp;</b> _	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue			 				
Contributions	\$ 410,588	\$ 477,074	<b>4</b>	887,662	\$ 264,255	\$ 577,500	\$ 841,755
Corporate sponsorship	226,413			226,413	193,744	1	193,744
Donated software	•			•	23,312	1	23,312
Donated goods and services	470,939			470,939	424,006	•	424,006
Interest and other income	9,474		,	9,474	23,380	2,464	25,844
Program fees	1,198,649			1,198,649	839,072	•	839,072
Product subscription fees	351,979			351,979	232,865	•	232,865
Net assets released from restriction	508,389	(508,389)	6		641,950	(641,950)	'
Total support and revenue	3,176,431	(31,315)	5	3,145,116	2,642,584	(61,986)	2,580,598
Expenses							
Program services	2,799,921		,	2,799,921	2,761,010	•	2,761,010
Management and general	191,358			191,358	132,953	•	132,953
Fund raising	223,872			223,872	146,059		146,059
Total expenses	3,215,151		  -	3,215,151	3,040,022		3,040,022
Change in net assets	(38,720)	(31,315)	<b>2</b>	(70,035)	(397,438)	(61,986)	(459,424)
Net assets Beginning	896,695	595,022	7	1,491,717	1,294,133	657,008	1,951,141
Ending	\$ 857,975	\$ 563,707	8 4	1,421,682	\$ 896,695	\$ 595,022	\$ 1,491,717

Years Ended December 31, 2009 and 2008 Statements of Functional Expenses Pro Bono Net, Inc

						2009					2008		
	P. Se	Program Services	Ma	anagement id General	Fur	Fundraising		Total	E S	Program Services	Management and General	Fundraising	Total
Account													
Legal services - donated	€9	181,527	S	20,170	S	•	8	201,697	8	223,253	· &	· \$	\$ 223,253
Salaries		926,829		70,319		128,339		1,125,487		856,575	73,510	84,911	1,014,996
Payroll taxes and benefits		201,916		14,596		26,760		243,272		167,207	13,770	15,737	196,714
Depreciation and amortization		415,363		•		•		415,363		441,503	1	•	441,503
Rent		80,932		5,850		10,726		97,508		80,731	6,648	7,598	94,977
Consulting fees		48,230		57,863		•		106,093		62,191	12,500	7,500	82,191
Professional and other fees		31,742		2,295		4,207		38,244		37,621	3,098	3,541	44,260
Travel and conventions		33,136		•		•		33,136		51,096	•	•	51,096
Marketing and advertising		211,308		15,275		28,008		254,591		216,113	17,798	20,340	254,251
Office expenditures and stationery		36,063		2,607		4,779		43,449		41,171	3,391	3,875	48,437
Website maintenance		72,317		•		•		72,317		94,535	•	•	94,535
Website hosting		155,306		•		•		155,306		121,142	•	•	121,142
Telephone		23,939		1,731		3,173		28,843		15,517	1,278	1,460	18,255
Insurance		7,583		548		1,005		9,136		8,038	662	756	9,456
Grants for project partners		354,201		•		•		354,201		328,293	•	•	328,293
Sales commission		18,100		•		•		18,100		12,404	•	•	12,404
Events		•		•		16,685		16,685					
Miscellaneous		1,429		104		190		1,723		3,620	298	341	4,259
	\$	\$ 2,799,921	89	191,358	S	223,872	\$	\$ 3,215,151	\$	2,761,010	\$ 132,953	\$ 146,059	\$ 3,040,022

# Pro Bono Net, Inc. Statements of Cash Flows Years Ended December 31, 2009 and 2008

		2009		2008
Cash flows from operating activities	Φ	(70.025)	<b>o</b>	(450, 424)
Change in net assets Adjustments to reconcile change in net assets to net cash	\$	(70,035)	\$	(459,424)
provided by (used in) operating activities:				
Depreciation and amortization		415,364		441,503
Donated website software		-		(23,312)
Changes in operating assets and liabilities:		(100.100)		(24.400)
Increase in program receivables		(189,123)		(31,499)
Decrease (increase) in contributions receivable		66,275		(50,500)
Decrease (increase) in prepaid expenses Increase (decrease) in accounts payable and accrued expenses		1,462 15,513		(9,506) (24,783)
Increase (decrease) in accounts payable and accided expenses Increase in deferred revenue		80,096		33,839
increase in deferred revenue	_	00,070	_	33,637
Net cash provided by (used in) operating activities		319,552		(123,682)
Cash flows from investing activities				
Acquisitions of software and computer equipment		(226,456)		(393,551)
Net cash used in investing activities		(226,456)		(393,551)
Net increase (decrease) in cash and cash equivalents		93,096		(517,233)
Cash and cash equivalents				
Beginning of year		608,698		1,125,931
End of year	\$	701,794	\$	608,698

# 1. Summary of Significant Accounting Policies

## Organization

Pro Bono Net, Inc. ("PBN" or the "Company") is a not-for-profit organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Based in New York City and San Francisco, PBN works in close partnership with nonprofit legal organizations across the United States and Canada, to increase access to justice for the millions of poor people who face legal problems every year without help from a lawyer. PBN does this by (i) supporting the innovative and effective use of technology by the nonprofit legal sector, (ii) increasing participation by volunteers, and (iii) facilitating collaborations among nonprofit legal organizations and advocates working on similar issues or in the same region.

Founded in 1998, PBN has developed a broad base of support from foundations, law firms, corporate sponsors and nonprofit partners alike, to build web platforms that offer powerful and sophisticated online tools to pro bono and legal aid advocates, and to provide critical legal information and assistance directly to the public. Its model has been adopted in 30 states. PBN programs include:

- Probono.net (<u>www.probono.net</u>) is a national, online resource for legal aid and pro bono attorneys, law professors and students, and related social services advocates. Members include more than 60,000 advocates from hundreds of public interest organizations and private firms.
- LawHelp (<u>www.lawhelp.org</u>) is an online resource that helps low and moderateincome people locate free legal aid programs in their communities, answers to questions about their legal rights, court information, links to social service agencies, and more.
- LawHelp Interactive (<u>www.lawhelpinteractive.org</u>) is a collaborative national effort
  to provide online legal document assembly for poverty law and court access to
  justice programs across the country. The LawHelp Interactive system increases
  opportunities for self-represented litigants to achieve justice on their own and
  improves efficiency for legal aid, pro bono and courts-based access to justice
  programs.
- Pro Bono Manager (<u>www.probono.net/pbm</u>) is a customized, hosted web application to increase law firms' pro bono program management capacity.

#### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

# Cash and Cash Equivalents

The Company considers all highly liquid investments, purchased with an original maturity of three months or less, to be cash equivalents. Liquid investments purchased with an original maturity greater than three months, but less than twelve months, are considered to be short-term investments.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions, which from time to time exceed the Federal Depository Insurance Coverage limit.

## Software, Furniture and Equipment

Costs related to the development of internal use software other than those incurred during the application development stage are expensed as incurred. Costs incurred during the application development stage are capitalized and amortized over the estimated useful life of the software. The software and computer equipment are being amortized on a straight-line basis over three years.

Furniture is being depreciated on a straight-line basis over seven years.

### **Deferred Revenues**

The Company recognizes revenues as earned. Amounts received in advance of the period in which services is rendered are recorded as a liability. Deferred revenues represent such amounts received for product subscription fees and program fees.

#### **Net Assets**

The net assets of the Company and changes therein are classified and reported as follows:

#### Unrestricted

Funds that are undesignated by donors or for which restriction have expired and are available for general purposes are used for the general activity of the Company.

### **Temporarily Restricted**

Temporarily restricted net assets consist of resources, the use of which has been restricted by donors. The release of net assets from restrictions results from either the satisfaction of the restricted purposes specified by the donors, or from the passage of time.

Purpose restrictions, grants restricted to specific geographic or subject area initiatives (e.g. civil rights, immigration, new business plans) at December 31, 2009 and 2008 amounted to \$544,957 and \$501,272, respectively. Time restrictions at December 31, 2009 and 2008 amounted to \$18,750 and \$93,750, respectively.

### **Permanently Restricted**

A donor-imposed restriction that stipulates that resources be maintained permanently but permits the Company to use or expend part or all of the income from donated assets. The Company has no permanently restricted net assets.

## 2. Contributions

The Company reports gifts of cash and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must 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 restricted support. Temporarily restricted contributions that have been restricted by the donor will be reclassified to unrestricted net assets when the restriction expires.

All contribution receivables are expected to be collected in 1 year.

#### Contributions of Goods and In-Kind Services

Amounts are reported in the financial statements for voluntary donations of services if those services create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and which would typically be purchased if not provided by donation.

The Company recognizes the contribution of goods and certain donated services, such as web software, legal services, advertising and website hosting at fair market value. The fair market value of software costs were based on information received from the donor and have been capitalized. Donated legal services and advertising have been recognized as revenue and expense in the statement of activities. Advertising costs for Pro Bono Manager and website hosting services were donated per corporate sponsorship agreements. The fair market values for such services have been recognized as corporate sponsorship revenue and related expenses in the statement of activities.

# 3. Software, Furniture and Equipment

Software, furniture and computer equipment consists of the following:

	Decem	ber 31,
	2009	2008
Website software	\$ 3,529,337	\$ 3,331,107
Computer equipment	139,484	111,258
Furniture	4,901	4,901
	3,673,722	3,447,266
Less accumulated depreciation and amortization	3,383,798	2,968,434
	<b>\$ 289,924</b>	<u>\$ 478,832</u>

### 4. Bank Line of Credit

The Company has an available line of credit with a bank for an amount not to exceed \$250,000 that expires on June 30, 2010. The line bears interest at a floating rate of prime plus 1.75%. At December 31, 2009 and 2008, the Company has no borrowings outstanding. The line is secured by the assets of the Company.

### 5. Commitments

The Company leases office space under an operating lease expiring October 31, 2011. Minimum future obligation under the lease is \$72,000 in 2010 and \$61,000 in 2011.

Rent expense charged to operations for the years ended December 31, 2009 and 2008 amounted to \$97,508 and \$94,977, respectively.

# 6. 401(k) Plan

The Company maintains a 401(k) Plan available to all of its employees who elect to contribute. No matching contributions were made by the Company for the years ended December 31, 2009 and 2008.

#### 7. Other Concentration

The Company received a temporarily restricted grant from one source, which accounted for 79% of contributions receivable and 84% of temporarily restricted contribution at December 31, 2009. Temporarily restricted grants from two sources accounted for 100% of contributions receivable and 71% of temporarily restricted contribution at December 31, 2008.

## 8. Subsequent Events

The Company has evaluated subsequent events through July 21, 2010, the date the financial statements were available for issuance.