

FOCUS PROJECT, INC.

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2004

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Independent Auditors' Report

To the Board of Directors
Focus Project, Inc.
Washington, DC

We have audited the accompanying statements of financial position of Focus Project, Inc. as of June 30, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 the Focus Project, Inc. as of June 30, 2004, 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.

Ribis, Jones & Maresca, P.A.

September 2, 2004

FOCUS PROJECT, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 299,104
Accounts receivable	21,012
Grants receivable, current	250,000
Prepaid expenses	<u>15,988</u>
Total Current Assets	586,104

OTHER ASSETS

Certificates of deposit	153,624
Investments	<u>5,640</u>
Total Other Assets	159,264

PROPERTY AND EQUIPMENT

Property and equipment	151,945
Leasehold improvements	17,780
Less: accumulated depreciation and amortization	<u>(141,173)</u>
Net Property and Equipment	<u>28,552</u>

TOTAL ASSETS \$ 773,920

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 33,235
Note payable	4,250
Accrued liabilities	<u>3,109</u>
Total Current Liabilities	40,594

TOTAL LIABILITIES 40,594

NET ASSETS

Unrestricted net assets	332,857
Temporarily restricted net assets	<u>400,469</u>
Total Net Assets	<u>733,326</u>

TOTAL LIABILITIES AND NET ASSETS \$ 773,920

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

**FOCUS PROJECT, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue			
Grants	\$ 405,359	\$ 555,000	\$ 960,359
Contributions	75,812	-	75,812
Professional fees	96,449	-	96,449
Reimbursements	51,700	-	51,700
Publications	5,690	-	5,690
Interest and dividend income	2,794	-	2,794
Unrealized loss on investments	(1,498)	-	(1,498)
Net assets released from restriction	<u>650,967</u>	<u>(650,967)</u>	<u>-</u>
Total support and revenue	1,287,273	(95,967)	1,191,306
Expenses			
Program services:			
Tax and budget	265,134	-	265,134
Regulatory	128,115	-	128,115
Access to information	328,334	-	328,334
Nonprofit advocacy	<u>301,557</u>	<u>-</u>	<u>301,557</u>
Total program services	1,023,140	-	1,023,140
Support services:			
General and administrative	176,192	-	176,192
Grant development	<u>65,097</u>	<u>-</u>	<u>65,097</u>
Total support services	<u>241,289</u>	<u>-</u>	<u>241,289</u>
Total Expenses	<u>1,264,429</u>	<u>-</u>	<u>1,264,429</u>
CHANGE IN NET ASSETS	22,844	(95,967)	(73,123)
NET ASSETS, BEGINNING OF YEAR	<u>310,013</u>	<u>496,436</u>	<u>806,449</u>
NET ASSETS, END OF YEAR	<u>\$ 332,857</u>	<u>\$ 400,469</u>	<u>\$ 733,326</u>

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

**FOCUS PROJECT, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (73,123)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	26,215
Unrealized loss on investments	1,498
Decrease in accounts receivable	2,069
Decrease in grants receivable	185,000
Increase in prepaid expenses	(8,283)
Increase in accounts payable	1,550
Decrease in accrued liabilities	<u>(1,061)</u>
Net Cash Provided By Operating Activities	133,865
CASH FLOW FROM INVESTING ACTIVITIES	
Purchase of certificates of deposit	(51,711)
Purchase of investments	(4,482)
Purchase of property and equipment	<u>(6,937)</u>
Net Cash Used By Investing Activities	(63,130)
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payment on note payable	<u>(5,666)</u>
Net Cash Used By Financing Activities	<u>(5,666)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	65,069
CASH AND CASH EQUIVALENTS, beginning of year	<u>234,035</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 299,104</u></u>

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

FOCUS PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Focus Project, Inc. (the “Organization”) is a non-profit organization incorporated in July 1983 in the District of Columbia. It’s purpose is to improve access to governmental decision makers and energize citizen participation in order to form an equitable and accountable government in the United States of America. The Organization operates under the name of OMB Watch.

Program Description

Tax and budget - Conduct meetings and provide analysis to educate the public on issues related to the federal budget process and rules and tax polices.

Regulatory - Provide information and analysis regarding cross-cutting regulatory issues, particularly as they affect public health, safety, and environmental protections.

Access to information - Research and provide data on policies pertaining to public access to governmental and industry data about issues that affect the public interest.

Nonprofit advocacy - Promote free speech rights and encourage policy involvement by nonprofit organizations through meetings, trainings and informational materials.

Accounting Method

The financial statements are prepared on the accrual basis of accounting and accordingly show all significant receivables, payables and other liabilities.

Basis of Presentation

Net assets and revenue are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein, are classified and reported as follows:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that may be maintained permanently by the Organization.

There were no permanently restricted net assets at June 30, 2004.

FOCUS PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Cash and Cash Equivalents

The Organization invests its excess cash in demand deposits in bank checking accounts and a money market fund. These investments are typically well diversified and short term. Therefore, the investments bear minimal risk. For purposes of the statement of cash flows, demand deposits and money market funds are included in cash and cash equivalents.

Accounts Receivable

Accounts receivable are charged to bad debt expense as they are deemed uncollectible. At June 30, 2004, management believes all account receivables are collectible. Therefore, no reserve for bad debt expense has been recorded.

Property and Equipment

Furniture, equipment and leasehold improvements are recorded at cost. Depreciation expense for furniture and equipment is provided on a straight-line basis over the estimated useful lives of the assets, which range from three to five years. Leasehold improvements are depreciated over the terms of the office lease. The Organization capitalizes all property and equipment with a cost basis of \$500 or more.

Investments

Investments which consist of certificates of deposit and equitable securities is recorded at fair market value.

Grant Revenue

Grants are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets, and reported in the statement of activities as net assets released from restrictions.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

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

FOCUS PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE B - INCOME TAXES

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and from the District of Columbia franchise tax. The Organization has been classified by the Internal Revenue Service as other than a private foundation. The Organization files information returns as required.

NOTE C - GRANTS RECEIVABLE

At June 30, 2004, the Organization's grants receivable were due in one year or less.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2004 consisted of the following:

Furniture and office equipment	\$ 151,945
Leasehold improvements	17,780
Less: accumulated depreciation and amortization	<u>(141,173)</u>
Net Property and Equipment	<u>\$ 28,552</u>

Depreciation expense for the year ended June 30, 2004 was \$26,215.

NOTE E - INVESTMENTS

Investments are stated at fair market value and are summarized as follows for the year ended June 30, 2004:

	<u>Cost</u>	<u>Fair Value</u>
Certificate of deposits	\$ 153,624	\$ 153,624
Marketable equity securities	<u>3,020</u>	<u>5,640</u>
	<u>\$ 156,644</u>	<u>\$ 159,264</u>

Investment return at June 30, 2004 is summarized as follows:

Interest and dividend income	\$ 2,794
Unrealized loss on investments	<u>(1,498)</u>
Total Investment Income	<u>\$ 1,296</u>

FOCUS PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE F- NOTE PAYABLE

In July 2001, the Organization obtained a \$17,000 non-interest bearing loan from the Bauman Foundation to purchase of a new copier. The outstanding balance of the loan at June 30, 2004, was \$4,250, which is due by April 30, 2005.

NOTE G- COMMITMENTS

The Organization leases office space, which expires on September 1, 2006. The lease provides for fixed annual base rents with a 2% increase per year. Additional rent for a pro-rata share of real estate tax increases may be added to the base rent. Minimum rental commitments under the lease agreement at June 30, 2004, were:

2005	92,700
2006	94,555
2007	<u>16,074</u>
Total Minimum Future Rental Payments	<u>\$ 203,329</u>

Total rent expense for the year ended June 30, 2004 was \$102,184.

NOTE H- RELATED PARTY TRANSACTION

During the year ended June 30, 2004, a member of the board of directors provided training and technical consulting services to the Organization's non profit advocacy project. For these services, the board member's employer, the University of Washington, was paid \$36,156.

NOTE I- RETIREMENT PLAN

The Organization has adopted a tax deferred annuity plan that is qualified under Internal Revenue Code Section 403(b). Substantially, all full-time employees are eligible to participate, and may consent to voluntary payroll contributions. In addition, the employer contributes a percentage of each participant's salary directly to the plan. Contributions are made on a graduated scale, and are based on length of service. For the year ended June 30, 2004, employer contributions to the retirement plan totaled \$25,222.

NOTE J- TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following project:

Tax and budget	\$ 45,469
Access to information	237,500
Nonprofit Advocacy	<u>117,500</u>
	<u>\$ 400,469</u>

FOCUS PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE K - NET ASSETS RELEASED FROM RESTRICTIONS

For the year ended June 30, 2004 temporarily restricted net assets released from donor restrictions by incurring expenses satisfying the purpose specified by the donor are as follows:

Purpose restrictions accomplished:	
Tax and budget	\$ 265,134
Regulatory	25,000
Access to Information	177,500
Nonprofit advocacy	<u>183,333</u>
	<u>\$ 650,967</u>

FOCUS PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE L - FUNCTIONAL EXPENSE CLASSIFICATION

SFAS 117 requires that revenue and expenses be classified in functional classes on the statement of activities. The following schedule allocates those expenses by natural classification.

Description	TAX AND BUDGET	PROGRAM SERVICES			SUPPORT SERVICES			TOTAL EXPENSES
		REGULATORY	ACCESS TO INFORMATION	NONPROFIT ADVOCACY	GENERAL AND ADMINISTRATIVE	GRANT DEVELOPMENT		
Audit and accounting	\$ 1,362	\$ 925	\$ 1,955	\$ 1,778	\$ 6,019	\$ -	\$ 12,039	
Civic Engagement Project	-	-	-	19,448	-	-	19,448	
Consultants	-	-	500	12,304	9,760	-	22,564	
Conference/meetings	28,500	1,747	7,991	4,024	4,123	-	46,385	
Depreciation and amortization	4,670	3,120	6,751	7,819	2,706	1,149	26,215	
Development	1,743	2,475	132	102	1,255	-	5,707	
Grants	35,000	-	-	-	-	-	35,000	
Insurance - health	17,165	11,465	24,468	22,214	14,980	6,362	96,654	
Insurance - office	724	414	1,119	1,010	-	-	3,267	
Internet	997	670	1,455	12,984	932	233	17,271	
Legal	6	798	8,388	2,147	49	-	11,388	
Miscellaneous	1,184	855	1,090	1,811	1,717	-	6,657	
Occupancy	18,329	12,057	26,251	23,987	15,133	6,427	102,184	
Office supplies	2,546	815	2,035	1,829	1,061	450	8,736	
Postage and delivery	1,955	648	1,334	1,078	744	316	6,075	
Printing/publications	458	560	3,024	5,374	1,359	577	11,352	
Repairs and maintenance	1,000	507	1,036	950	385	163	4,041	
Retirement	4,524	3,034	6,457	5,880	3,739	1,588	25,222	
Salaries/payroll taxes	128,075	85,560	185,152	169,412	105,827	44,948	718,974	
Technology budget	1,796	444	2,706	2,385	1,468	624	9,423	
Telephone	1,348	893	1,983	1,710	753	483	7,170	
Travel	12,916	614	6,035	2,234	3,536	1,502	26,837	
Website	836	514	38,472	1,077	646	275	41,820	
TOTAL EXPENSES	\$ 265,134	\$ 128,115	\$ 328,334	\$ 301,557	\$ 176,192	\$ 65,097	\$ 1,264,429	