



One Economy Corporation

Audited Financial Statements

*Years ended December 31, 2005 and 2004
with Report of Independent Auditors*

One Economy Corporation
Audited Financial Statements

Years ended December 31, 2005 and 2004

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Report of Independent Auditors

Board of Directors
One Economy Corporation
Washington, D.C.

We have audited the accompanying statements of financial position of One Economy Corporation (OEC) as of December 31, 2005 and 2004, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of OEC'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OEC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 OEC at December 31, 2005 and 2004, 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.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included at page 11 is presented for the purpose of additional analysis and is not required as part of the financial statements. Such information has been subjected to the auditing procedures applied to the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Johnson Lambert & Co.

Reston, Virginia
January 28, 2006

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One Economy Corporation
Statements of Financial Position

	December 31,	
	2005	2004
Assets		
Cash and cash equivalents	\$ 1,287,142	\$ 413,990
Cash held as collateral	115,589	143,779
Accounts receivable	275,139	-
Investments	16,650	34,969
Contributions and grants receivable, net	10,819,965	1,663,286
Prepaid expenses	14,750	-
Deposits	5,000	5,000
Total assets	<u>\$ 12,534,235</u>	<u>\$ 2,261,024</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 248,315	\$ 5,745
Accrued payroll and related liabilities	35,382	11,547
Deferred revenue	50,000	-
Total liabilities	333,697	17,292
Net assets:		
Unrestricted net (deficit) assets	(856,583)	30,367
Temporarily restricted net assets	13,057,121	2,213,365
Total net assets	<u>12,200,538</u>	<u>2,243,732</u>
Total liabilities and net assets	<u>\$ 12,534,235</u>	<u>\$ 2,261,024</u>

See accompanying notes to the financial statements.

One Economy Corporation

Statements of Activities

	Years ended December 31,	
	2005	2004
Change in unrestricted net assets		
Revenue and support:		
Grants and contributions	\$ 1,194,335	\$ 1,974,851
In-kind contributions	-	1,446,541
Services revenue	2,530,839	869,697
Other income	48,638	19,983
Investment earnings, net	<u>23,258</u>	<u>3,233</u>
Total revenue	3,797,070	4,314,305
Net assets released from restriction	<u>2,424,868</u>	<u>2,383,730</u>
Total unrestricted revenue and support	6,221,938	6,698,035
 Expenses:		
Program services		
Digital Community	2,375,906	1,940,238
Web Properties	2,061,109	2,623,095
Special Projects	1,590,443	1,528,860
Digital Connectors	222,425	-
DC Grant	-	<u>7,277</u>
Total program services	<u>6,249,883</u>	<u>6,099,470</u>
Support services		
Fundraising	297,672	510,085
General and administrative	<u>561,333</u>	<u>231,143</u>
Total support services	<u>859,005</u>	<u>741,228</u>
Total expenses	<u>7,108,888</u>	<u>6,840,698</u>
Change in unrestricted net assets	(886,950)	(142,663)
 Change in temporarily restricted net assets		
Grants and contributions	13,268,624	1,441,850
Net assets released from restriction	<u>(2,424,868)</u>	<u>(2,383,730)</u>
Change in temporarily restricted net assets	<u>10,843,756</u>	<u>(941,880)</u>
Net change in net assets	9,956,806	(1,084,543)
Net assets, beginning of year	<u>2,243,732</u>	<u>3,328,275</u>
Net assets, end of year	<u>\$ 12,200,538</u>	<u>\$ 2,243,732</u>

See accompanying notes to the financial statements.

One Economy Corporation

Statements of Cash Flows

	Years ended December 31,	
	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Change in net assets	\$ 9,956,806	\$ (1,084,543)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Change in market value of investments	(9,327)	3,800
Donation of stock	(156,290)	-
Changes in operating assets and liabilities:		
Accounts receivable	(275,139)	-
Contributions and grants receivable	(9,949,982)	176,760
Discount on contributions	793,303	(13,064)
Prepaid expenses	(14,750)	-
Accounts payable and accrued liabilities	266,405	(73,299)
Deferred revenue	50,000	-
Cash flows provided by (used in) operating activities	<u>661,026</u>	<u>(990,346)</u>
Cash flows from investing activities		
Purchase of investments	-	(13,480)
Proceeds from sale of investments	183,936	319,548
Cash flows provided by investing activities	<u>183,936</u>	<u>306,068</u>
Cash flows from financing activities		
Payments on revolving line of credit	(800,000)	-
Proceeds from revolving line of credit	800,000	-
Cash flows from financing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	844,962	(684,278)
Cash and cash equivalents, beginning of year	<u>557,769</u>	<u>1,242,047</u>
Cash and cash equivalents, end of period	<u>\$ 1,402,731</u>	<u>\$ 557,769</u>
Cash and cash equivalents		
Cash and cash equivalents	\$ 1,287,142	\$ 413,990
Cash held as collateral	115,589	143,779
	<u>\$ 1,402,731</u>	<u>\$ 557,769</u>

See accompanying notes to the financial statements.

One Economy Corporation

Notes to Financial Statements

Years ended December 31, 2005 and 2004

Note A - Organization and Summary of Significant Accounting Policies

One Economy Corporation (OEC) is a nonprofit organization incorporated on February 16, 2000 in the District of Columbia. The mission and purpose of OEC is to maximize the potential of technology to help low-income people build assets and raise their standard of living. These objectives are accomplished by providing web-based products and services focusing on finances, education, employment, healthcare, and home ownership through its website "beehive.org". OEC creates initiatives and partnerships to build digital communities in select geographic areas to increase the aptitude of participating individuals with the internet culture.

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Consequently, revenue is recognized when earned and expense is recognized when the obligation is incurred.

Estimates

The preparation of the financials statements in conformity with GAAP requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Tax Status

OEC is exempt from the payment of taxes on income other than unrelated business income under Internal Revenue Code Section 501(c)(3). For the years ended December 31, 2005 and 2004 no provision for income taxes was made, as there was no net unrelated business income.

Cash and Cash Equivalent

Cash and cash equivalents include funds in checking accounts and money market funds. During the year, OEC had deposits in financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. Management does not consider such deposits over the FDIC insured limits to be a significant risk.

Investments

Investments are reported at fair market value. Gains and losses, realized and unrealized, are reported in the statement of activities.

One Economy Corporation

Notes to Financial Statements (Continued)

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Classification of Net Assets

OEC presents its financial statements in accordance with accounting principles generally accepted in the United States of America. OEC reports information regarding its financial position and activities according to the following classes of net assets:

Unrestricted Net Assets - This classification is used to record all assets that are not required to be reported as either temporarily or permanently restricted. This category is used to record activity which has not been restricted by a donor or funding source.

Temporarily Restricted Net Assets - This classification is used to record contributions that have been specifically restricted by time or purpose by the donor. Restricted contributions are recorded as revenue when the donor has made a gift rather than when the cash is received. Once the restriction has been satisfied, a transfer is made from temporarily restricted net assets to unrestricted net assets. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

Permanently Restricted Net Assets - This classification is used for net assets subject to donor imposed stipulations that they be maintained permanently by OEC. Generally the donors of these assets permit OEC to use all or part of the income earned on related investments for general or specific purposes. OEC has no permanently restricted net assets at December 31, 2005 and 2004.

In-kind Contributions

OEC receives significant contributed services from volunteers to help accomplish its program objectives. Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. In-kind contributions consist primarily of donated space, legal, internet and website services and are recorded at fair value for 2005 and 2004.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated between the program and supporting services to which they relate based on actual time devoted by OEC's personnel.

One Economy Corporation

Notes to Financial Statements (Continued)

Note B - Investments

Investments carried at market value consisted of equity securities of \$16,650 and the Prime Obligation Fund of \$34,969 at December 31, 2005 and 2004, respectively.

OEC's total return on cash, cash equivalents and investments is comprised of the following at December 31:

	<u>2005</u>	<u>2004</u>
Interest and dividends	\$ 4,691	\$ 7,033
Unrealized gain (loss), net	9,327	(4,508)
Realized gain, net	9,240	708
Net investment earnings	<u>\$ 23,258</u>	<u>\$ 3,233</u>

Note C - Contributions and Grants Receivable

Contributions and grants receivable represent unconditional promises to give by donors. Discount rates are based upon the rates of applicable Treasury bills as of the end of the year in which the contribution was made. Amortization of the discount is included in grants and contribution revenue. At December 31, the receivables are comprised as follows:

	<u>2005</u>	<u>2004</u>
Receivable within one year	\$ 4,385,450	\$ 1,365,198
Receivable in one to three years	<u>7,279,730</u>	<u>350,000</u>
	11,665,180	1,715,198
Discount to present value	<u>(845,215)</u>	<u>(51,912)</u>
Net contributions and grants receivable	<u>\$ 10,819,965</u>	<u>\$ 1,663,286</u>

One Economy Corporation

Notes to Financial Statements (Continued)

Note D - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for use in programs specified by donors. The net assets released from donor restrictions for the years ended December 31, 2005 and 2004 are attributable to expenses incurred related to these specific programs.

Temporarily restricted net assets were available for the following at December 31:

	<u>2005</u>	<u>2004</u>
Digital community	\$ 11,860,235	\$ 1,360,356
Web properties	691,256	755,854
Special projects	<u>505,630</u>	<u>97,155</u>
	<u>\$ 13,057,121</u>	<u>\$ 2,213,365</u>

Note E - Cash Held as Collateral

OEC guarantees several loans to higher risk customers. The terms of the loans were negotiated between the financial institution and the borrowers and were entered into for the purchase of computer equipment. Under the terms of the agreements, OEC placed cash on deposit with various financial institutions to cover the full amount of the loans guaranteed in the event of a default. At December 31, 2005 and 2004 deposits held with financial institutions totaled \$115,589 and \$143,779, respectively. The remaining loans outstanding totaled \$9,506 and \$61,178, as of December 31, 2005 and 2004, respectively.

Note F - Employee Benefit Plan

OEC sponsors a 401(k) plan for its employees. Employees may contribute up to 15% of their base salary to a maximum amount determined annually based on the tax code. OEC matches 50% of the employee contribution up to 6% of their annual salary. There is a one-year vesting period on the employer match. Employer contributions made under the 401(k) plan were \$37,461 and \$47,519 in 2005 and 2004, respectively.

One Economy Corporation

Notes to Financial Statements (Continued)

Note G - Commitments

OEC leases its office space in Washington, DC under a non-cancelable operating lease which expires in 2013. OEC also subleases office space in California, Portland, Georgia, New York and Chicago under non-cancelable lease agreements that expire between 2006 and 2009. The future minimum lease payments under the above described operating leases as of December 31, 2005 are as follows:

2006	\$ 268,302
2007	245,684
2008	196,368
2009	207,341
2010	180,571
Thereafter	<u>569,251</u>
Total	<u>\$ 1,667,517</u>

OEC incurred total rent expense of \$284,193 and \$224,879 for the years ended December 31, 2005 and 2004, respectively.

Note H - Line of Credit

On May 26, 2005, OEC entered into a revolving Line of Credit (LOC) with Eagle Bank. The LOC allows OEC to utilize up to \$750,000 to provide short-term working capital. Interest is payable monthly.

On September 9, 2004, OEC entered into a revolving Line of Credit (LOC) with M&T Bank. The LOC allows OEC to utilize up to \$300,000. Interest is due and payable monthly.

At December 31, 2005 and 2004 no amounts were outstanding relating to the Lines of Credit. The interest incurred was \$16,299 and \$0 for the years ended December 31, 2005 and 2004, respectively.

Supplemental Information

One Economy Corporation

Statements of Functional Expenses

Year ended December 31, 2005

	Digital Community	Web Properties	Special Projects	Digital Connectors	Fundraising	General and Administrative	2005 Total	2004 Total
Salaries	\$ 8,000	\$ -	\$ -	\$ -	\$ -	\$ 2,892,847	\$ 2,900,847	\$ 2,244,291
Payroll taxes	-	-	-	-	-	219,595	219,595	173,647
Employee benefits	1,190	1,296	299	-	-	234,354	237,139	177,508
Promotion (including in-kind)	25,030	247,788	1,353	-	3,762	2,125	280,058	1,672,019
Access work	84,374	265,586	981,097	4,000	134,687	37,047	1,506,791	1,216,911
Contributions/grants	348,606	68,672	29,980	39,450	-	37,794	524,502	470,290
Occupancy	144,015	-	80	-	-	140,098	284,193	224,879
Travel and entertainment & meals	146,898	12,360	39,649	7,980	26,910	62,775	296,572	218,241
Web development, hosting and support	1,120	130,096	250	-	-	23,295	154,761	74,019
Equipment purchase, rental, and service	36,168	13,450	1,043	-	-	69,968	120,629	70,771
Telephone	40,883	141	2,412	78	109	28,471	72,094	68,776
Office expense	32,210	5,350	2,105	33	120	51,386	91,204	49,205
Audit and accounting	130	-	-	-	-	81,320	81,450	36,594
Staff functions	2,413	-	6,828	-	-	85,042	94,283	34,645
Insurance	-	-	-	-	-	41,654	41,654	34,341
Evaluations	19,482	10,000	30,000	-	-	-	59,482	18,797
Board expenses	-	-	278	-	-	25,104	25,382	15,107
Postage and shipping	2,823	2,717	904	-	156	9,225	15,825	11,499
Printing and publications	3,016	3,904	509	-	4,666	22,002	34,097	10,867
Membership	1,517	-	-	-	-	1,339	2,856	6,542
Other expenses	157	-	-	-	-	5,780	5,937	6,500
Legal	-	-	715	-	-	6,375	7,090	4,197
Dues and subscriptions	576	947	83	-	8	637	2,251	992
Utilities	8,870	-	-	-	-	27	8,897	60
Interest	-	-	-	-	-	16,299	16,299	-
Provision for uncollectible accounts	25,000	-	-	-	-	-	25,000	-
Overhead allocation	1,443,428	1,298,802	492,858	170,884	127,254	(3,533,226)	-	-
Total	\$ 2,375,906	\$ 2,061,109	\$ 1,590,443	\$ 222,425	\$ 297,672	\$ 561,333	\$ 7,108,888	\$ 6,840,698