
JOHNSON LAMBERT & Co.

Financial Statements

One Economy Corporation

*For the years ended December 31, 2002 and 2001
with Report of Independent Auditors*

JLCo.

7500 Old Georgetown Rd., Suite 700
Bethesda, MD 20814-6133
Phone (301) 656-0040
Fax (301) 656-0518

One Lawson Lane, P.O. Box 525
Burlington, VT 05402-0525
Phone (802) 862-2640
Fax (802) 862-4837

700 Spring Forest Rd, Suite 335
Raleigh, NC 27609-9124
Phone (919) 865-1070
Fax (919) 865-1077

www.jlco.com

One Economy Corporation

Financial Statements

Years ended December 31, 2002 and 2001

Independent Auditors' Report.....	1
Audited Financial Statements	
Statements of Financial Position.....	2
Statements of Activities	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5-8
Supplemental Information	
Schedule of Functional Expenses	9

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 as of December 31, 2002 and the related statements of activities and cash flows for the year 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 audit. The financial statements of One Economy Corporation as of December 31, 2001 were audited by other auditors whose report dated March 20, 2002 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with accounting standards generally accepted in the United States. 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 One Economy Corporation as of December 31, 2002 and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included at page 9 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.

Bethesda, Maryland
January 29, 2003

JLCo.

7500 Old Georgetown Rd., Suite 700
Bethesda, MD 20814-6133
Phone (301) 656-0040
Fax (301) 656-0518

One Lawson Lane, P.O. Box 525
Burlington, VT 05402-0525
Phone (802) 862-2640
Fax (802) 862-4837

700 Spring Forest Rd, Suite 335
Raleigh, NC 27609-9124
Phone (919) 865-1070
Fax (919) 865-1077

One Economy Corporation
Statements of Financial Position

	December 31,	
	2002	2001
Assets		
Cash and cash equivalents	\$ 964,724	\$ 402,972
Investments	212,520	-
Contributions and grant receivable	91,250	187,354
Accounts receivable	-	10,000
Deposits	5,000	5,000
	<u>\$ 1,273,494</u>	<u>\$ 605,326</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 123,151	\$ 11,175
Net assets:		
Unrestricted	284,518	18,086
Temporarily restricted	865,825	576,065
Total net assets	<u>1,150,343</u>	<u>594,151</u>
Total liabilities and net assets	<u>\$ 1,273,494</u>	<u>\$ 605,326</u>

See accompanying notes to financial statements.

One Economy Corporation

Statements of Activities

	Years ended December 31,	
	2002	2001
Changes in unrestricted net assets		
Revenue and support:		
Grants and contributions	\$ 651,540	\$ 170,000
Service revenue	307,882	40,532
Investment earnings	37,961	2,881
	<u>997,383</u>	<u>231,413</u>
Net assets released from restrictions	1,918,582	884,543
Total unrestricted revenue and support	<u>2,915,965</u>	<u>1,097,956</u>
Expenses:		
Program services		
Digital communities	1,106,272	256,839
Web properties	636,623	359,124
DC Grant	322,855	-
Special projects	170,899	90,208
Total program services	<u>2,236,649</u>	<u>706,171</u>
Supporting services		
Fundraising	234,268	162,943
General and administrative	178,616	244,416
Total supporting services	<u>412,884</u>	<u>407,359</u>
Total expenses	<u>2,649,533</u>	<u>1,113,530</u>
Change in unrestricted net assets	266,432	(15,574)
Changes in temporarily restricted net assets		
Grants and contributions	2,208,342	1,308,127
Net assets released from restrictions	<u>(1,918,582)</u>	<u>(884,543)</u>
Change in temporarily restricted net assets	<u>289,760</u>	<u>423,584</u>
Change in net assets	556,192	408,010
Net assets, beginning of year	<u>594,151</u>	<u>186,141</u>
Net assets, end of year	<u>\$ 1,150,343</u>	<u>\$ 594,151</u>

See accompanying notes to financial statements.

One Economy Corporation

Statements of Cash Flows

	December 31,	
	2002	2001
Cash flows from operating activities		
Change in net assets	\$ 556,192	\$ 408,010
Adjustments to reconcile change in net assets to net cash provided by operating:		
Unrealized gain	(11,106)	-
Realized loss	1,612	-
Changes in assets and liabilities:		
Contributions receivable	96,104	(187,354)
Accounts receivable	10,000	(10,000)
Deposits	-	(5,000)
Accounts payable	111,976	(1,395)
Net cash provided by operating activities	<u>764,778</u>	<u>204,261</u>
Cash flows from investing activities		
Purchase of investments	(1,130,698)	-
Sale of investments	927,672	-
Net cash used in investing activities	<u>(203,026)</u>	<u>-</u>
Net increase in cash and cash equivalents	561,752	204,261
Cash and cash equivalents, beginning of year	<u>402,972</u>	<u>198,711</u>
Cash and cash equivalents, end of year	<u>\$ 964,724</u>	<u>\$ 402,972</u>

See accompanying notes to financial statements.

One Economy Corporation

Notes to Financial Statements

December 31, 2002 and 2001

1. 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 (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 accounting principles generally accepted in the United States require 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 net unrelated business income under Internal Revenue Code Section 501(c)(3). For the year ended December 31, 2002 and 2001 no provision for income taxes was made, as there was no net unrelated business income.

Cash and Cash Equivalents

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

OEC carries all investments at fair market value and reports all gains and losses (realized and unrealized) in the statement of activities.

One Economy Corporation

Notes to Financial Statements (Continued)

1. 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. 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 actually received. Once the restriction has been satisfied, a transfer is made from temporarily restricted net assets to unrestricted net assets.

Revenue Recognition

OEC reports contributions as temporarily restricted support if they are received with donor or grantor stipulations that limit the use of the donated assets.

In-kind Contributions

OEC receives significant contributed services from volunteers to help accomplish its program objectives. It is OEC's policy to record such services at their fair value, when reasonably determinable, if they create or enhance non-financial assets, would have to be purchased if not provided by donation or require specialized skills. For the years ended December 31, 2002 and 2001, the total of donated services received were not reasonably determinable.

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.

One Economy Corporation

Notes to Financial Statements (Continued)

2. Investment Earnings

The investment's carried at market value consisted of the following at December 31, 2002:

Cash and equivalents:	
SDIT Prime Obligation Class H	\$ 103,895
Prime Obligation Fund	155
Fixed income:	
GNMA Fund	65,839
Core Fixed Income Fund	33,389
Short-Duration Government Fund	9,242
	<u>\$ 212,520</u>

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

	<u>2002</u>	<u>2001</u>
Interest and dividends	\$ 28,467	\$ 2,881
Unrealized gain	11,106	-
Realized loss	(1,612)	-
Net investment earnings	<u>\$ 37,961</u>	<u>\$ 2,881</u>

3. Contributions Receivable

Contributions receivable represent unconditional promises to give by donors. All contributions receivable are expected to be collected during the next year and are recorded at net realizable value.

4. Conditional Contributions

During 2002, OEC received conditional promises in the amount of \$750,000. The grant stipulates OEC will receive three annual installments of \$250,000 upon meeting certain conditions. It is expected that these conditions will be met during 2003. At December 31, 2002 OEC recorded revenue of \$250,000 in recognition of the first installment. Since the remainder of the promise is conditional, no other amounts have been recorded in the accompanying financial statements.

One Economy Corporation

Notes to Financial Statements (Continued)

5. 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 \$23,036 and \$10,115 in 2002 and 2001, respectively.

6. Commitments

OEC leases its office space in Washington, DC under a non-cancelable operating lease that commenced on October 1, 2001 and expires on September 30, 2004. On October 1, 2002 OEC amended the lease to include additional space. The lease provides for annual rent escalations of 3% over the term of the lease. OEC also subleases office space in California under a non-cancelable lease agreement that commenced on August 28, 2002 and expires on February 7, 2007. The future minimum lease payments required under these leases are as follows for the years ending December 31:

2003	\$ 101,300
2004	79,800
2005	8,700
2006	8,900
2007	800
Total	<u>\$ 199,500</u>

OEC had total rent expense of \$85,807 and \$22,312 for the years ended December 31, 2002 and 2001, respectively.

7. Temporarily Restricted Net Assets

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

	<u>2002</u>	<u>2001</u>
Web properties	\$ 440,700	\$ 355,465
Digital communities	<u>425,125</u>	<u>220,600</u>
	<u>\$ 865,825</u>	<u>\$ 576,065</u>

Supplemental Information

One Economy Corporation
 Schedule of Functional Expenses

Year ended December 31, 2002

	Program Services					Supporting Services			2002 Total	2001 Total
	Digital Communities	Web Properties	DC Grant	Special Projects	Total	Fundraising	General and Administrative	Total		
Salaries	\$ 442,029	\$ 368,338	\$232,763	\$ -	\$ 1,043,130	\$ 95,216	\$ 38,091	\$133,307	\$1,176,437	\$ 625,255
Benefits	32,805	26,762	17,266	-	76,833	6,906	2,590	9,496	86,329	25,552
Payroll taxes	35,056	28,598	18,450	-	82,104	7,380	2,768	10,148	92,252	43,050
Consultant fees	276,149	137,988	-	59,220	473,357	18,257	35,139	53,396	526,753	202,022
Grant expense	151,773	-	15,175	67,636	234,584	-	-	-	234,584	-
Travel	61,344	3,600	-	30,002	94,946	19,157	60,318	79,475	174,421	89,257
Promotional	10,477	7,457	4,295	-	22,229	72,575	644	73,219	95,448	26,734
Rent	38,987	23,410	15,104	-	77,501	6,041	2,265	8,306	85,807	22,312
Office	19,347	12,725	6,316	-	38,388	3,341	947	4,288	42,676	29,977
Accounting fees	15,719	12,823	8,273	-	36,815	3,309	1,241	4,550	41,365	7,433
Telephone	8,405	77	-	-	8,482	-	25,024	25,024	33,506	1,983
Equipment and technology	7,429	6,624	2,580	434	17,067	1,032	387	1,419	18,486	18,257
Board expense	-	-	-	12,719	12,719	-	5,224	5,224	17,943	3,579
Legal fees	2,821	5,919	1,485	-	10,225	594	223	817	11,042	3,665
Other expense	1,131	505	-	888	2,524	-	3,429	3,429	5,953	2,197
Insurance	1,515	1,236	798	-	3,549	319	120	439	3,988	11,412
Postage	721	423	273	-	1,417	109	41	150	1,567	-
Utilities	180	17	-	-	197	-	153	153	350	-
Advertising	126	103	66	-	295	27	10	37	332	14
Printing	258	18	11	-	287	5	2	7	294	-
Focus groups	-	-	-	-	-	-	-	-	-	831
	<u>\$ 1,106,272</u>	<u>\$ 636,623</u>	<u>\$322,855</u>	<u>\$170,899</u>	<u>\$ 2,236,649</u>	<u>\$ 234,268</u>	<u>\$ 178,616</u>	<u>\$412,884</u>	<u>\$2,649,533</u>	<u>\$ 1,113,530</u>