

THE FOCUS PROJECT, INC.
AUDITED FINANCIAL STATEMENTS
June 30, 2012

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Board of Directors
The Focus Project, Inc.
Washington, DC

Report of Independent Auditors

We have audited the accompanying statement of financial position of the Focus Project, Inc. (the Organization) as of June 30, 2012, 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. The prior year summarized comparative information has been derived from the Organization's June 30, 2011 financial statements and, in our report dated October 26, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These 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, 2012, 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.

Drolet + Associates, PLLC

Washington, DC
January 30, 2013

THE FOCUS PROJECT, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2012
(With Summarized Financial Information for June 30, 2011)

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 246,811	\$ 114,422
Accounts receivable	5,473	34,250
Grants and contributions receivable	540,000	312,500
Prepaid expenses	18,161	81,589
TOTAL CURRENT ASSETS	810,445	542,761
PROPERTY AND EQUIPMENT, net	29,849	28,132
GRANTS AND CONTRIBUTIONS RECEIVABLE, less current portion	40,000	-0-
CERTIFICATES OF DEPOSIT	452,323	552,274
INVESTMENTS	1,175,861	1,066,957
TOTAL ASSETS	\$ 2,508,478	\$ 2,190,124
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 19,119	\$ 11,872
Accrued expenses	30,481	36,397
Deferred revenue	-0-	37,500
TOTAL CURRENT LIABILITIES	49,600	85,769
NET ASSETS		
Unrestricted	1,878,878	1,791,855
Temporarily restricted	580,000	312,500
TOTAL NET ASSETS	2,458,878	2,104,355
TOTAL LIABILITIES AND NET ASSETS	\$ 2,508,478	\$ 2,190,124

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

THE FOCUS PROJECT, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012
(With Summarized Financial Information for the Year Ended June 30, 2011)

	Unrestricted	Temporarily Restricted	2012 Total	2011 Total
REVENUES				
Grants and contributions	\$ 1,142,264	\$ 1,179,001	\$ 2,321,265	\$ 1,943,301
Donated services, equipment and facilities	28,217		28,217	240,281
Professional fees	106,888		106,888	193,015
Reimbursements	79,351		79,351	98,375
Publications	2,548		2,548	2,142
Investment (loss) income	(12,190)		(12,190)	127,477
Net assets released from restrictions	911,501	(911,501)	-0-	-0-
TOTAL REVENUES	2,258,579	267,500	2,526,079	2,604,591
EXPENSES				
Program expenses:				
Federal fiscal policy	377,601		377,601	325,298
Regulatory	476,594		476,594	313,315
Access to information	569,189		569,189	1,007,835
Nonprofit speech rights	319,465		319,465	484,766
Total program expenses	1,742,849	-0-	1,742,849	2,131,214
Supporting services:				
Grant development	261,284		261,284	196,317
Management and general	167,423		167,423	179,900
Total supporting services	428,707	-0-	428,707	376,217
TOTAL EXPENSES	2,171,556	-0-	2,171,556	2,507,431
CHANGE IN NET ASSETS	87,023	267,500	354,523	97,160
NET ASSETS, BEGINNING OF YEAR	1,791,855	312,500	2,104,355	2,007,195
NET ASSETS, END OF YEAR	\$ 1,878,878	\$ 580,000	\$ 2,458,878	\$ 2,104,355

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

THE FOCUS PROJECT, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012
(With Summarized Financial Information for the Year Ended June 30, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	\$ 354,523	\$ 97,160
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,085	13,833
Loss (gain) on investments	41,415	(112,728)
Decrease (increase) in accounts receivable	28,777	(12,750)
(Increase) decrease in grants and contributions receivable	(267,500)	37,500
Decrease (increase) in prepaid expenses	63,428	(38,151)
Increase in accounts payable	7,247	8,437
Decrease in accrued expenses	(5,916)	(52,156)
(Decrease) increase in deferred revenue	(37,500)	37,500
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	196,559	(21,355)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(13,802)	(15,457)
Proceeds from sales of investments and certificates of deposit	279,655	309,871
Purchases of investments and certificates of deposit	(330,023)	(735,961)
NET CASH USED IN INVESTING ACTIVITIES	(64,170)	(441,547)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	132,389	(462,902)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	114,422	577,324
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 246,811	\$ 114,422

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

THE FOCUS PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Focus Project, Inc. (the Organization), is a non-profit organization incorporated in July 1983 in the District of Columbia. Its purpose is to improve access to governmental decision makers and energize citizen participation in order to lead to a more equitable and accountable government which will ultimately strengthen our civil society. The Organization operates under the name of OMB Watch. The Organization receives a majority of its support from grants and contributions.

The major programs of the Organization are as follows:

Federal fiscal policy - Conduct meetings and provide analysis to educate the public on issues related to the federal budget process, rules and tax policies.

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

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 speech rights - Promote free speech rights and encourage policy involvement by non-profit organizations through meetings, training and informational materials.

**Basis of
Presentation**

The accompanying financial statements are presented on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when incurred.

Tax Status

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and has been determined not to be a private foundation within the meaning of Section 509(a) of the Code. However, the Organization is subject to tax on net income received from activities unrelated to its exempt purpose.

**Cash and Cash
Equivalents**

The Organization considers all short-term investments with an original maturity of three months or less to be cash equivalents, excluding amounts held as investments or certificates of deposit.

THE FOCUS PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Accounts

Receivable

Accounts receivable is comprised of amounts due for professional fees and services. Accounts receivable are charged to bad debt expense as they are deemed uncollectible. As of June 30, 2012, management believes all accounts receivable are collectible. Therefore, no reserve for bad debt expense has been recorded.

Investments

Investments are recorded at fair market value. The valuation of marketable securities is based upon quotations obtained from national securities exchanges.

**Certificates of
Deposit**

Certificates of deposit are issued by banks and are stated at cost plus accrued interest, which approximates market value.

**Property and
Equipment**

Acquisitions of property and equipment equal to or in excess of \$500 and with a useful life of more than one year are capitalized. Furniture, equipment and leasehold improvements are recorded at cost, if purchased, or at fair market value at date of donation, if contributed. Depreciation of furniture and equipment is provided on the straight-line basis over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or useful life of the asset.

**Contributions
and Grants**

Contributions and 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.

**Grants and
Contributions
Receivable**

Management believes all grants receivable are fully collectible and no reserve for bad debt expense has been recorded.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

THE FOCUS PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

**Accounting for
Uncertain Tax
Positions**

The Organization requires that a tax position be recognized or derecognized based on a “more-likely-than-not” threshold. This applies to positions taken or expected to be taken in a tax return. The Organization does not believe its financial statements include, or reflect, any uncertain tax positions. The Organization’s Forms 990, *Return of Organization Exempt from Income Tax*, are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Allocation of
Functional 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 benefited.

Reclassifications

Certain 2011 amounts have been reclassified for comparative purposes.

**Prior Year
Information**

The financial statements include certain prior year summarized comparative totals as of and for the year ended June 30, 2011. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2011, from which the summarized information was derived.

NOTE B - PENSION PLAN

The Organization has a tax deferred annuity plan (the Plan) that is qualified under the Internal Revenue Code Section 403(b). Substantially all full-time employees are eligible to participate once they have met length of service requirements, and may consent to voluntary payroll contributions. In addition, the Organization contributes a percentage of each participant’s salary directly to the Plan. Contributions are made on a graduated scale based on length of service. For the year ended June 30, 2012, employer contributions to the Plan totaled approximately \$55,500.

THE FOCUS PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2012 consisted of the following:

Description	Amount
Furniture and equipment	\$ 167,699
Leasehold improvements	17,780
Total property and equipment	185,479
Less accumulated depreciation and amortization	(155,630)
Property and equipment, net	\$ 29,849

NOTE D - FAIR VALUE MEASUREMENTS

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets (examples include equity securities);

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability other than quoted prices, either directly or indirectly, including inputs in markets that are not considered to be active (examples include corporate or municipal bonds);

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement. The inputs to the determination of fair value require significant management judgment (examples include certain private equity securities).

The following presents investments carried at fair value as of June 30, 2012:

Description	Level 1	Level 2	Level 3	Total
Money market funds	\$ 175,565			\$ 175,565
Equity mutual funds	669,877			669,877
Fixed income mutual funds	330,419			330,419
Total	\$ 1,175,861	\$ -0-	\$ -0-	\$ 1,175,861

THE FOCUS PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012

NOTE E - INVESTMENTS

The Organization invests in professionally managed portfolios that contain money market and equity and fixed income mutual funds. All of the Organization's investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Investment loss for the year ended June 30, 2012 is comprised of the following:

Description	Amount
Interest income	\$ 1,332
Dividend income	27,893
Loss on investments	(41,415)
Total investment loss	\$ (12,190)

NOTE F - CONCENTRATIONS

The Organization maintains cash balances at several financial institutions in the Washington, DC metropolitan area. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At times during the year, the Organization's cash balances exceeded the FDIC insurance limits. Management believes the risk in these situations to be minimal.

As of June 30, 2012, 77% of grants and contributions receivable was due from three donors. For the year ended June 30, 2012, one contributor comprised 28% of grants and contributions revenue.

NOTE G – GRANTS AND CONTRIBUTIONS RECEIVABLE

All grants and contributions receivable are considered to be collectible within one year unless otherwise stated by the donor.

As of June 30, 2012, grants and contributions receivable consisted of amounts due in the following fiscal years:

<i>June 30,</i>	Amount
2013	\$ 540,000
2014	40,000
Grants and contributions receivable	\$ 580,000

THE FOCUS PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012

NOTE H – OPERATING LEASE

The Organization leases its main office space under a three-year extension of a lease. The current extension expires August 31, 2013.

Future minimum lease payments under the lease as of June 30, 2012 are as follows:

<i>For the year ended June 30,</i>	Amount
2013	\$ 173,880
2014	28,980
Total future minimum lease payments	\$ 202,860

Rent expense for the year ended June 30, 2012 was approximately \$200,000.

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2012, the Organization's temporarily restricted net assets consisted of the following:

Description	Amount
Nonprofit speech rights	\$ 100,000
Subsequent year's activities	480,000
Total temporarily restricted net assets	\$ 580,000

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors for the year ended June 30, 2012 as follows:

Description	Amount
Regulatory	\$ 190,000
Fiscal policy	100,000
Access to information	52,500
Nonprofit speech rights	256,501
Timing - subsequent year's activities	312,500
Net assets released from restrictions	\$ 911,501

THE FOCUS PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012

NOTE J- BOARD DESIGNATED NET ASSETS

The Board of Directors has designated net assets of approximately \$1,176,000 as a reserve fund.

NOTE K - DONATED SERVICES

The fair value of donated services, equipment and facilities included as contributions in the financial statements and the corresponding program and supporting expenses for the year ended June 30, 2012, are as follows:

Description	Management and General	Fiscal Policy	Access to Information	Total
Technical assistance		\$ 5,738	\$ 5,737	\$ 11,475
Conference & meetings		1,395	1,395	2,790
Software license	\$ 64	6,944	6,944	13,952
Total	\$ 64	\$ 14,077	\$ 14,076	\$ 28,217

NOTE L - RELATED PARTY TRANSACTIONS

During 2012, the Organization entered into an agreement with a nonprofit organization (the Nonprofit) whose president is a member of the Organization's Board of Directors. Under the agreement, the Organization acts as fiscal administrator for grants from foundations for the Nonprofit's activities. During the year ended June 30, 2012, the Organization received \$200,000 from donors and remitted \$194,000 to the Nonprofit. Pursuant to the agreement, the Organization recorded \$6,000 as an administrative fee.

The Organization receives contributions and grants from members of its Board of Directors as well as various organizations with which members of its Board of Directors are affiliated. These contributions and grants totaled approximately \$33,000 for the year ended June 30, 2012.

During the year ended June 30, 2012, the Organization contracted for services with various entities with which certain members of its Board of Directors are affiliated totaling approximately \$38,000.

NOTE M - COMMITMENT

In April 2011, the Organization entered into an employment agreement with its Executive Director. The term of the agreement is effective July 1, 2011 to June 30, 2014. The agreement can be renewed thereafter for successive one - year terms upon the mutual consent of the parties. In the event the agreement is terminated without cause by the Organization, the Organization will pay five months of severance to the Executive Director at the base salary rate in effect at the time of termination.

THE FOCUS PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012

NOTE N - SUBSEQUENT EVENTS

Subsequent events were evaluated through January 30, 2013, which is the date the financial statements were available to be issued.

In November 2012, the Board of Directors of the Organization approved a resolution to change the name of the Organization to the Center for Effective Government. The Organization is in the process of requesting various approvals and amending corporate documents to finalize the name change. The Organization anticipates completing the switch to the Center for Effective Government in January 2013.



Board of Directors
The Focus Project, Inc.
Washington, DC

Report of Independent Auditors on
Supplementary Information

We have audited the financial statements of the Focus Project, Inc. as of and for the year ended June 30, 2012, and have issued our report dated January 30, 2013, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Drolet + Associates, P.L.L.C.

Washington, DC
January 30, 2013

THE FOCUS PROJECT, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012
(With Summarized Financial Information for the Year Ended June 30, 2011)

	Federal Fiscal Policy	Regulatory	Access to Information	Nonprofit Speech Rights	Total Programs	Grant Development	Management and General	2012 Total	2011 Total
Salaries	\$ 220,886	\$ 290,731	\$ 305,347	\$ 166,241	\$ 983,205	\$ 150,318	\$ 69,128	\$ 1,202,651	\$ 1,165,378
Employee benefits	30,378	39,669	41,980	20,510	132,537	21,905	10,331	164,773	181,846
Consultants	11,019	12,779	61,001	19,905	104,704	4,076	10,463	119,243	153,886
Accounting and audit	5,723	7,484	7,394	3,715	24,316	4,544	25,397	54,257	42,038
Depreciation and amortization	1,355	1,776	1,870	885	5,886	4,247	1,952	12,085	13,833
Development	221	2,232	1,080	147	3,680	143	66	3,889	2,335
Grants	185	248	227	95	755	168	77	1,000	116,315
Insurance	1,747	2,396	2,310	1,246	7,699	665	306	8,670	8,939
Internet	8,199	10,681	21,555	5,972	46,407	6,876	3,162	56,445	54,751
Legal	133	183	263	900	1,479	43	1,596	3,118	72,672
Media	1,028	1,399	1,319	899	4,645	919	423	5,987	5,508
Membership conferences	1,855	6,686	2,157	10,565	21,263	198	5,821	27,282	31,426
Miscellaneous	1,706	2,640	2,257	1,197	7,800	1,479	984	10,263	5,081
Payroll taxes	17,507	22,862	24,193	11,820	76,382	12,624	5,954	94,960	91,549
Retirement contributions	10,236	13,366	14,145	6,911	44,658	7,381	3,481	55,520	75,012
Technology	15,163	1,838	15,666	1,255	33,922	140	64	34,126	182,357
Postage	33	56	85	351	525	31	2,048	2,604	3,934
Printing	448	548	674	7,706	9,376	333	557	10,266	2,951
Rent	32,740	42,436	44,978	41,603	161,757	25,896	11,908	199,561	190,954
Repairs and maintenance	972	1,286	1,340	660	4,258	632	291	5,181	5,150
Research	2,944	3,857	4,062	1,922	12,785	9,223	4,241	26,249	8,750
Supplies	1,534	2,149	2,233	2,020	7,936	1,313	1,517	10,766	7,938
Telephone	1,213	1,728	1,703	1,675	6,319	642	295	7,256	6,077
Travel	5,008	1,284	4,872	7,403	18,567	1,376	4,551	24,494	45,739
Publications and training	5,187	6,043	6,229	3,744	21,203	5,546	2,550	29,299	33,012
Bad debt expense	181	237	249	118	785	566	260	1,611	-0-
TOTAL EXPENSES	\$ 377,601	\$ 476,594	\$ 569,189	\$ 319,465	\$ 1,742,849	\$ 261,284	\$ 167,423	\$ 2,171,556	\$ 2,507,431