

**FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

American Sleep Apnea Association

June 30, 2005 and 2004

American Sleep Apnea Association

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Farmer & First, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

"Grow Your Business With Us"

INDEPENDENT AUDITORS' REPORT

August 16, 2005

Board of Directors
American Sleep Apnea Association
Washington, DC

We have audited the accompanying statements of financial position of the American Sleep Apnea Association (a nonprofit corporation), as of June 30, 2005 and 2004, and the related statements of activities, functional expenses and statements of cash flows for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on the 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 audits 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 the American Sleep Apnea Association as of June 30, 2005 and 2004, and the change in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Farmer & First, PC

Warren, RI

American Sleep Apnea Association
STATEMENTS OF FINANCIAL POSITION
As of June 30,

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,098	\$ 20,357
Accounts receivable	548	8,750
Pledges receivable	29,375	12,500
Prepaid expenses	<u>9,752</u>	<u>8,152</u>
Total current assets	<u>55,773</u>	<u>49,759</u>
PROPERTY AND EQUIPMENT:		
Furniture and equipment	18,068	16,728
Computer software	4,677	1,677
Less: accumulated depreciation	<u>16,860</u>	<u>15,976</u>
Property and equipment, net	<u>5,885</u>	<u>2,429</u>
TOTAL ASSETS	<u>\$ 61,658</u>	<u>\$ 52,188</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable - trade	\$ 4,615	\$ 2,215
Accrued payroll	3,743	3,672
Deferred membership dues	<u>20,906</u>	<u>12,508</u>
Total current liabilities	<u>29,264</u>	<u>18,395</u>
NET ASSETS:		
Unrestricted	(14,287)	(2,262)
Temporarily restricted	<u>46,681</u>	<u>36,055</u>
Total net assets	<u>32,394</u>	<u>33,793</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 61,658</u>	<u>\$ 52,188</u>

The accompanying notes are an integral part of these statements.

American Sleep Apnea Association
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	Total
SUPPORT & REVENUE:			
Contributions	\$ 133,537	\$ 35,881	\$ 169,418
Membership dues	36,808	-	36,808
Sales of videos and publications	12,449	-	12,449
Miscellaneous	1,468	-	1,468
Net assets released from restrictions	25,255	(25,255)	-
Total unrestricted support and reclassifications	209,517	10,626	220,143
EXPENSES:			
Program services			
Outreach	171,557	-	171,557
Supporting services			
Management and general	17,272	-	17,272
Fundraising	32,713	-	32,713
Net expenses	221,542	-	221,542
Change in net assets	(12,025)	10,626	(1,399)
Net assets, beginning of year	(2,262)	36,055	33,793
Net assets, end of year	\$ (14,287)	\$ 46,681	\$ 32,394

The accompanying notes are an integral part of these statements.

American Sleep Apnea Association
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

	Unrestricted	Temporarily Restricted	Total
SUPPORT & REVENUE:			
Contributions	\$ 98,406	\$ 22,912	\$ 121,318
Membership dues	18,086		18,086
Sales of videos and publications	8,818		8,818
Net assets released from restrictions	60,356	(60,356)	-
Total unrestricted support and reclassifications	185,666	(37,444)	148,222
EXPENSES:			
Program services			
Outreach	142,659	-	142,659
Supporting services			
Management and general	22,442	-	22,442
Fundraising	12,666	-	12,666
Net expenses	177,767	-	177,767
Change in net assets	7,899	(37,444)	(29,545)
Net assets, beginning of year	(10,161)	73,499	63,338
Net assets, end of year	\$ (2,262)	\$ 36,055	\$ 33,793

The accompanying notes are an integral part of these statements.

American Sleep Apnea Association
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2005

	Program Services		Supporting Services			Functional Expenses
	Outreach	Mgmt & General	Fund-Raising	Total Support		
Salaries	\$ 58,158	\$ 5,911	\$ 13,095	\$ 19,005	\$ 77,163	
Payroll taxes	4,656	473	1,048	1,521	6,177	
Employee benefits	<u>10,162</u>	<u>1,033</u>	<u>2,288</u>	<u>3,321</u>	<u>13,483</u>	
Total payroll-related expenses	72,975	7,417	16,431	23,848	96,823	
Printing	22,247	2,373	5,043	7,416	29,662	
Office and program supplies	19,666	2,098	4,458	6,555	26,221	
Travel and meetings	19,676	-	199	199	19,875	
Office rent	11,791	1,258	2,673	3,930	15,721	
Professional fees	8,238	1,867	879	2,746	10,984	
Postage and shipping	4,718	1,069	503	1,573	6,291	
Telephone	3,279	350	743	1,093	4,372	
Insurance	2,182	233	495	727	2,909	
Data processing	1,904	203	432	635	2,539	
Computer services	1,233	132	279	411	1,644	
Videos expense	1,091	-	-	-	1,091	
Depreciation	663	71	150	221	884	
Dues and subscriptions	617	66	140	206	823	
License and taxes	248	26	56	83	330	
Maintenance	71	8	16	24	95	
Miscellaneous	<u>959</u>	<u>102</u>	<u>217</u>	<u>320</u>	<u>1,278</u>	
Totals	<u>\$ 171,557</u>	<u>\$ 17,272</u>	<u>\$ 32,713</u>	<u>\$ 49,985</u>	<u>\$ 221,542</u>	

The accompanying notes are an integral part of these statements.

American Sleep Apnea Association
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2004

	Program Services	Supporting Services			Functional Expenses
	Outreach	Mgmt & General	Fund-Raising	Total Support	
Salaries	\$ 59,419	\$ 13,650	\$ 7,227	\$ 20,877	\$ 80,296
Payroll taxes	4,964	1,140	604	1,744	6,708
Employee benefits	11,368	529	1,322	1,851	13,219
Total payroll-related expenses	75,751	15,319	9,153	24,472	100,223
Travel and meetings	18,306	-	185	185	18,491
Office rent	13,201	2,743	1,200	3,943	17,144
Professional fees	9,465	1,967	860	2,827	12,292
Printing	5,692	58	58	116	5,808
Telephone	3,964	223	267	490	4,454
Postage and shipping	3,659	298	298	596	4,255
Computer services	3,593	193	77	270	3,863
Videos expense	2,179	-	-	-	2,179
Insurance	1,661	345	151	496	2,157
Data processing	1,605	334	146	480	2,085
Office and program supplies	852	168	101	269	1,121
Equipment rental	872	28	18	46	918
Depreciation	498	34	40	74	572
License and taxes	323	68	29	97	420
Dues and subscriptions	262	42	16	58	320
Maintenance	223	46	20	66	289
Miscellaneous	553	576	47	623	1,176
Totals	<u>\$ 142,659</u>	<u>\$ 22,442</u>	<u>\$ 12,666</u>	<u>\$ 35,108</u>	<u>\$ 177,767</u>

The accompanying notes are an integral part of these statements.

American Sleep Apnea Association
STATEMENTS OF CASH FLOWS
For the Years Ended June 30,

	2005	2004
CASH FLOWS PROVIDED BY		
OPERATING ACTIVITIES:		
Decrease in net assets	\$ (1,399)	\$ (29,545)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	884	572
Decrease (increase) in operating assets:		
Accounts receivable	8,202	(8,750)
Pledges receivable	(16,875)	51,125
Prepaid expenses	(1,600)	(4,901)
Increase (decrease) in operating liabilities:		
Accounts payable - trade	2,400	(1,681)
Accrued payroll	71	135
Deferred membership dues	8,398	2,174
	<hr/>	<hr/>
Net cash provided by operating activities	81	9,129
CASH FLOWS USED BY		
INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,340)	(1,078)
	<hr/>	<hr/>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,259)	8,051
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<hr/> 20,357	<hr/> 12,306
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<hr/> <u>\$ 16,098</u>	<hr/> <u>\$ 20,357</u>
Interest paid during the year	<hr/> <u>\$ -</u>	<hr/> <u>\$ -</u>

The accompanying notes are an integral part of these statements.

American Sleep Apnea Association
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE A - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

1. Nature of Activities

The American Sleep Apnea Association is a national voluntary health and welfare agency whose mission is to reduce injury, disability, and premature death from sleep apnea and to enhance the well-being of those affected by this common disorder. The Association promotes education and awareness, the Association's A.W.A.K.E. network of voluntary mutual support groups, research, and continuous improvement of care.

2. Basis of Accounting

The Association recognizes income on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

3. Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS 117, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. The association had no permanently restricted net assets as of June 30, 2005 and June 30, 2004, respectively.

4. Cash and Cash Equivalents

For purposes of the statements of financial position and cash flows, the Association considers all unrestricted highly liquid investments, with an initial maturity of three months or less, to be considered cash.

American Sleep Apnea Association
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE A - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES
(continued)

5. Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated for financial statement purposes using the straight-line method based on the property's estimated life.

Additions and improvements that add materially to productive capacity, or extend the life of an asset, are capitalized. Normal repairs and maintenance are charged against income. When facilities are retired or sold, their cost and accumulated depreciation are removed from the accounts and related gains or losses are included in income. In case of trade items, any remaining book value increases the basis of the new acquisitions.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The estimated lives used in determining depreciation are:

Furniture and equipment	5 years
Computer software	3 years

6. Income Taxes

The Association is a not-for-profit organization that is generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the organization has been classified as an organization that is not a private foundation under Section 590(a)(1). Income that is not related to exempt purposes, less applicable deductions, is subject to Federal and state corporate income taxes. The Association did not have any unrelated business income for the year ended June 30, 2005 and June 30, 2004, respectively.

American Sleep Apnea Association
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE A - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES
(continued)

7. Donated Material and Contributed Services

Numerous unpaid volunteers have made significant contributions of their time to the management of the Association and to the delivery of its program services. The value of the donated time is not determinable and, as such, is not reflected in these financial statements.

8. Restricted and Unrestricted Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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.

9. Functional Allocation of Expenses

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

10. Grants and Contract Awards

The Association receives grants from private grantors for various purposes. Grants and contract awards not yet received are accrued. The Association defers grants and contract revenues received under approved awards from grantors to the extent they exceed expenses incurred for the purposes specified under the grant restrictions.

American Sleep Apnea Association
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE A - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES
(continued)

11. Promises to Give

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. All promises to give are due in less than one year.

12. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

NOTE B – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2005 are available for the following programs and net assets during the year ended June 30, 2004 were released from restrictions by incurring expenses satisfying the restricted purpose and/or restricted time period. Net assets were released and are available in the following programs:

	Balance <u>6/30/04</u>	<u>Additions</u>	Net Assets <u>Released</u>	Balance <u>6/30/05</u>
Fiscal year ended June 30, 2005 & 2004	\$ 22,912	\$ 35,881	\$ 22,912	\$ 35,881
Pediatric sleep apnea	12,509	-0-	1,709	10,800
Technology improvements	<u>634</u>	<u>-0-</u>	<u>634</u>	<u>-0-</u>
Total	<u>\$ 36,055</u>	<u>\$ 35,881</u>	<u>\$ 25,255</u>	<u>\$ 46,681</u>

American Sleep Apnea Association
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE C – COMMITMENTS

Rental Space Lease – On May 26, 1998, the Association entered into a five-year operating lease for office space. Under its terms, the lease commenced on July 1, 1998 and expired on June 30, 2003. At the end of the original lease term, the Association exercised a five-year renewal option which expires on June 30, 2008. The monthly lease payment is \$1,429 and is indexed by the CPI after each year of the lease.

Copier Lease – On July 15, 2005, the Company entered into a lease agreement with Lanier to lease a copier. This lease, which is non-cancelable, has a term of sixty months and requires monthly payments of \$350.36 beginning September 1, 2005.

As of June 30, 2005, the future minimum commitments under long-term agreements were as follows:

2006	\$ 20,652
2007	21,352
2008	21,352
2009	4,204
2010 and succeeding years	<u>4,906</u>
Total	<u>\$ 72,466</u>