

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

American Sleep Apnea Association

June 30, 2007 and 2006

American Sleep Apnea Association

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Farmer & First, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

"Grow Your Business With Us"

INDEPENDENT AUDITORS' REPORT

April 20, 2008

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, 2007 and 2006, 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, 2007 and 2006, 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,

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,343	\$ 1,858
Rents and accounts receivable	1,553	2,972
Pledges receivable	17,500	39,375
Prepaid expenses	8,266	7,196
Total current assets	38,662	51,401
PROPERTY AND EQUIPMENT:		
Furniture and equipment	21,035	18,893
Computer software	4,677	4,677
Less: accumulated depreciation	20,387	18,588
Property and equipment, net	5,325	4,982
TOTAL ASSETS	\$ 43,987	\$ 56,383
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable - trade	\$ 30,481	\$ 17,641
Accrued payroll	3,762	3,270
Deferred membership dues	17,396	18,210
Total current liabilities	51,639	39,121
NET ASSETS:		
Unrestricted	(43,117)	(31,062)
Temporarily restricted	35,465	48,324
Total net assets	(7,652)	17,262
TOTAL LIABILITIES AND NET ASSETS	\$ 43,987	\$ 56,383

The accompanying notes are an integral part of these statements.

American Sleep Apnea Association
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT & REVENUE:			
Contributions	\$ 105,732	\$ 82,500	\$ 188,232
Membership dues	40,033	-	40,033
Sales of videos and publications	11,140	-	11,140
Miscellaneous	56	-	56
Net assets released from restrictions	<u>95,359</u>	<u>(95,359)</u>	<u>-</u>
Total unrestricted support and reclassifications	<u>252,320</u>	<u>(12,859)</u>	<u>239,461</u>
EXPENSES:			
Program services			
Outreach	221,020	-	221,020
Supporting services			
Management and general	15,969	-	15,969
Fundraising	<u>27,386</u>	<u>-</u>	<u>27,386</u>
Net expenses	<u>264,375</u>	<u>-</u>	<u>264,375</u>
Change in net assets	(12,055)	(12,859)	(24,914)
Net assets, beginning of year	<u>(31,062)</u>	<u>48,324</u>	<u>17,262</u>
Net assets, end of year	<u><u>\$ (43,117)</u></u>	<u><u>\$ 35,465</u></u>	<u><u>\$ (7,652)</u></u>

The accompanying notes are an integral part of these statements.

American Sleep Apnea Association
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Total
SUPPORT & REVENUE:			
Contributions	\$ 146,889	\$ 43,750	\$ 190,639
Membership dues	43,938	-	43,938
Sales of videos and publications	13,088	-	13,088
Rent income	3,000	-	3,000
Miscellaneous	408	-	408
Net assets released from restrictions	42,107	(42,107)	-
Total unrestricted support and reclassifications	249,430	1,643	251,073
EXPENSES:			
Program services			
Outreach	210,340	-	210,340
Supporting services			
Management and general	18,304	-	18,304
Fundraising	37,561	-	37,561
Net expenses	266,205	-	266,205
Change in net assets	(16,775)	1,643	(15,132)
Net assets, beginning of year	(14,287)	46,681	32,394
Net assets, end of year	\$ (31,062)	\$ 48,324	\$ 17,262

The accompanying notes are an integral part of these statements.

American Sleep Apnea Association
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2006

	Program Services		Supporting Services			Functional Expenses
	Outreach	Mgmt & General	Fund-Raising	Total Support		
Salaries	\$ 56,728	\$ 6,475	\$ 15,779	\$ 22,254	\$ 78,982	
Payroll taxes	4,576	525	1,256	1,781	6,357	
Employee benefits	11,895	1,504	3,421	4,925	16,820	
Total payroll-related expenses	73,199	8,504	20,456	28,960	102,159	
Travel and meetings	53,042	2,297	4,069	6,366	59,408	
Program and office supplies	32,227	2,130	3,682	5,812	38,039	
Office Rent	13,218	1,422	2,504	3,926	17,144	
Professional Fees	12,053	1,433	2,548	3,981	16,034	
Printing	5,984	625	1,080	1,705	7,689	
Postage and shipping	5,422	425	603	1,028	6,450	
Telephone	3,912	430	752	1,182	5,094	
Insurance	2,207	264	477	741	2,948	
Data processing	1,937	265	454	719	2,656	
Computer Services	1,765	58	101	159	1,924	
Depreciation	1,296	138	294	432	1,728	
Videos expense	1,079	11	19	30	1,109	
Web site services	704	77	134	211	915	
Dues and subscriptions	601	123	210	333	934	
Interest	510	45	78	123	633	
License and taxes	174	20	36	56	230	
Miscellaneous	1,010	37	64	101	1,111	
Totals	<u>\$ 210,340</u>	<u>\$ 18,304</u>	<u>\$ 37,561</u>	<u>\$ 55,865</u>	<u>\$ 266,205</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, 2007

	Program Services		Supporting Services			Functional Expenses
	Outreach	Mgmt & General	Fund-Raising	Total Support		
Salaries	\$ 65,858	\$ 6,354	\$ 13,404	\$ 19,758	\$ 85,616	
Payroll taxes	5,114	476	1,000	1,476	6,590	
Employee benefits	13,478	1,322	2,497	3,819	17,297	
Total payroll-related expenses	84,450	8,152	16,901	25,053	109,503	
Travel and meetings	31,866	1,114	1,544	2,658	34,524	
Office and program supplies	20,462	1,112	1,499	2,611	23,073	
Office rent	13,403	1,568	2,173	3,741	17,144	
Newsletter expenses	16,679	-	-	-	16,679	
Professional fees	10,358	1,095	1,517	2,612	12,970	
Printing	12,075	154	214	368	12,443	
Web site services	6,921	140	194	334	7,255	
Postage and shipping	5,710	399	554	953	6,663	
Telephone	3,340	391	541	932	4,272	
Data processing	2,550	290	402	692	3,242	
Insurance	2,390	282	391	673	3,063	
Contract labor	2,339	186	258	444	2,783	
Computer services	1,714	201	278	479	2,193	
Interest	1,634	191	265	456	2,090	
Dues and subscriptions	1,377	201	279	480	1,857	
Depreciation	1,349	144	306	450	1,799	
Videos expense	1,200	-	-	-	1,200	
Miscellaneous	1,203	349	70	419	1,622	
Totals	<u>\$ 221,020</u>	<u>\$ 15,969</u>	<u>\$ 27,386</u>	<u>\$ 43,355</u>	<u>\$ 264,375</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,

	2007	2006
CASH FLOWS PROVIDED BY		
OPERATING ACTIVITIES:		
Decrease in net assets	\$ (24,914)	\$ (15,132)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,799	1,728
Decrease (increase) in operating assets:		
Accounts receivable	1,419	(2,424)
Pledges receivable	21,875	(10,000)
Prepaid expenses	(1,070)	2,556
Increase (decrease) in operating liabilities:		
Accounts payable - trade	12,840	13,026
Accrued payroll	492	(473)
Deferred membership dues	(814)	(2,696)
	11,627	(13,415)
Net cash provided (used) by operating activities	11,627	(13,415)
CASH FLOWS USED BY		
INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,142)	(825)
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,485	(14,240)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	1,858	16,098
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$ 11,343	\$ 1,858
Interest paid during the year	\$ 2,090	\$ 633

The accompanying notes are an integral part of these statements.

American Sleep Apnea Association
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

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, 2007 and June 30, 2006, 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, 2007 and 2006

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 Association 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, 2007 and June 30, 2006, respectively.

American Sleep Apnea Association
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

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, 2007 and 2006

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, 2007 are available for the following programs and net assets during the year ended June 30, 2006 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:

	<u>Balance</u> <u>6/30/06</u>	<u>Additions</u>	Net Assets <u>Released</u>	<u>Balance</u> <u>6/30/07</u>
Fiscal year ended				
June 30, 2008	\$ -0-	\$ 82,500	\$ 48,750	\$ 33,750
June 30, 2007	43,750	-0-	43,750	-0-
Pediatric Sleep Apnea	<u>4,574</u>	<u>-0-</u>	<u>2,859</u>	<u>1,715</u>
Total	<u>\$ 48,324</u>	<u>\$ 82,500</u>	<u>\$ 95,359</u>	<u>\$ 35,465</u>

American Sleep Apnea Association
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

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 for 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, 2007, the future minimum commitments under long-term agreements were as follows:

2008	\$ 21,352
2009	4,204
2010	4,204
2011	<u>702</u>
Total	<u>\$ 30,462</u>

NOTE D – RETIREMENT PLAN

A 403(b) pension plan is available to all employees immediately from the first day of hire. Each employee may contribute up to \$13,000 annually from his or her own funds. Following twelve months of service, the employee becomes eligible for an employer discretionary contribution. The Association contributed for the year ended June 30, 2007, 3% of eligible employee's compensation in the amount of \$2,704 to the retirement plan on the behalf of its employees.

NOTE E – LINE OF CREDIT

On September 15, 2006, the Association entered into a \$25,000 demand bank line of credit, under which the Association may borrow at the bank's prime rate plus 3.25%. Interest is due monthly and the line is secured by the Association's executive director.

American Sleep Apnea Association
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE F – SUBSEQUENT EVENT

On August 20, 2007, Cephalon, Inc. provided an unrestricted educational grant in the amount of \$134,500. The purpose of the grant was to fund the production of an educational video, in DVD format and other educational purposes.