

SAMPLE ASSOCIATION, INC.
AUDITED FINANCIAL REPORT
December 31, 2003

CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of financial position	2
Statement of activities	3
Statement of cash flows	4
Statement of functional expenses	5
Notes to financial statements	6-11
APPENDIX	
Graphical analysis:	
Revenue by program	I
Cash reserves and prepaid renewal fees	II
Education and registration fee comparison	III

To the Board of Directors
Sample Association, Inc.
Any Town, USA

We have audited the accompanying statement of financial position of Sample Association, Inc. as of December 31, 2003 and the related statements of activities, cash flows and functional expenses 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.

We conducted our audit in accordance with generally accepted auditing standards. 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 Sample Association, Inc. as of December 31, 2003 and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

Silver Spring, Maryland
March 15, 2004

SAMPLE ASSOCIATION

STATEMENT OF FINANCIAL POSITION

December 31, 2003

ASSETS

Cash and cash equivalents	\$ 823,056
Investment income receivable	18,736
Accounts receivable	24,563
Prepaid expense	32,741
Investments	2,634,748
Property and equipment, net	<u>136,419</u>

TOTAL ASSETS \$ 3,670,263

LIABILITIES AND NET ASSETS

Accounts payable	\$ 90,835
Capital leases, net of current portion	63,589
Deferred membership dues	733,345
Accrued payroll and employee benefits	<u>109,886</u>

TOTAL LIABILITIES 997,655

Unrestricted net assets	2,235,314
Temporarily restricted net assets	222,394
Permanently restricted net assets	42,087
Accumulated comprehensive income	<u>172,813</u>

TOTAL NET ASSETS 2,672,608

TOTAL LIABILITIES AND NET ASSETS \$ 3,670,263

SEE INDEPENDENT AUDITORS' REPORT

The Notes to Financial Statements are an integral part of this statement

SAMPLE ASSOCIATION

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Other Comprehensive Income	Totals
REVENUE AND OTHER SUPPORT:					
Dues	\$ 1,925,075	\$ -	\$ -	\$ -	1,925,075
Continuing education classes	165,074	201,094	-	-	366,168
National conference	287,921	-	-	-	287,921
Regional conferences	362,015	-	-	-	362,015
Expert lecture series	92,854	-	-	-	92,854
Training workshops	216,877	-	-	-	216,877
Investment income	201,345	-	-	-	201,345
Other	53,746	-	-	-	53,746
Total revenue and other support	<u>3,304,907</u>	<u>201,094</u>	<u>-</u>	<u>-</u>	<u>3,506,001</u>
EXPENSES:					
Program services:					
Continuing education classes	455,689				455,689
National conference	821,342				821,342
Regional conferences	621,547				621,547
Expert lecture series	40,321				40,321
Training workshops	804,926				804,926
Supporting Services:					
Management and general	463,750	-	-	-	463,750
Total expenses	<u>3,207,575</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,207,575</u>
Change in net assets	97,332	201,094	-	-	298,426
Unrealized loss on securities	-	-	-	(256,311)	(256,311)
Total comprehensive income	<u>97,332</u>	<u>201,094</u>	<u>-</u>	<u>(256,311)</u>	<u>42,115</u>
Net assets, beginning	<u>2,137,982</u>	<u>21,300</u>	<u>42,087</u>	<u>429,124</u>	<u>2,946,664</u>
Net assets, ending	<u>\$ 2,235,314</u>	<u>\$ 222,394</u>	<u>\$ 42,087</u>	<u>\$ 172,813</u>	<u>\$ 2,988,779</u>

SEE INDEPENDENT AUDITORS' REPORT

The Notes to Financial Statements are an integral part of this statement

SAMPLE ASSOCIATION

STATEMENT OF CASH FLOWS For the Year Ended December 31, 2003

Cash flows from operating activities:	
Total comprehensive income	\$ 42,115
Adjustments to reconcile excess revenue and expense to net cash provided by operating activities:	
Depreciation	140,524
(Gain) on sale of investments	(252,472)
Unrealized loss on investments	256,311
Non-cash contribution	(3,071)
(Increase) decrease in:	
Investment income receivable	(8,492)
Accounts receivable	(3,650)
Prepaid expense	(3,642)
(Decrease) increase in:	
Accounts payable	<u>5,487</u>
Net cash used in operating activities	<u>173,110</u>
Cash flows from investing activities:	
Proceeds from sales of investments	145,926
Purchase of investments	<u>(301,601)</u>
Net cash provided by investing activities:	<u>(155,675)</u>
Net increase in cash	17,435
Cash and cash equivalents, beginning	<u>805,621</u>
Cash and cash equivalents, ending	<u>\$ 823,056</u>

SEE INDEPENDENT AUDITORS' REPORT

The Notes to Financial Statements are an integral part of this statement

SAMPLE ASSOCIATION

**STATEMENT OF FUNCTIONAL EXPENSES
For the Year ended December 31, 2003**

	Continuing Education	National Conference	Regional Conferences	Lecture Series	Training Workshops	Management and General	Total
Payroll	\$ 123,951	\$ 296,646	\$ 233,233	\$ 5,964	\$ 443,678	\$ 289,120	\$ 1,392,592
Payroll taxes	9,296	22,248	17,492	1,950	34,902	22,858	108,746
Medical insurance	8,197	16,455	14,328	1,102	30,921	17,815	88,818
Retirement plan	-	-	-	-	21,682	15,237	36,919
Depreciation	19,964	35,983	27,230	1,766	35,264	20,317	140,524
Conferences	-	200,357	126,479	-	-	-	326,836
Contracted service	137,754	60,875	43,536	22,188	31,766	18,980	315,099
Supplies	65,356	27,678	20,945	1,359	87,125	15,628	218,091
Insurance	9,721	17,522	13,259	860	17,171	9,893	68,426
Printing	32,238	54,875	57,921	776	15,488	421	161,719
Utilities and telephone	8,638	15,570	11,783	764	15,259	8,791	60,805
Transportation costs	8,037	14,486	10,962	711	14,196	8,179	56,571
Miscellaneous	9,292	16,748	12,674	822	16,413	9,456	65,405
Postage and delivery	3,620	6,524	4,937	320	6,394	3,684	25,479
Repairs and maintenance	11,918	21,482	16,256	1,055	21,052	12,129	83,892
Gifts and awards	3,540	6,380	4,828	313	6,252	-	21,313
Rent	3,200	5,768	4,365	283	5,652	3,257	22,525
Memberships dues	-	-	-	-	-	7,000	7,000
Subscriptions and publications	499	902	681	47	885	509	3,523
Equipment lease	468	843	638	41	826	476	3,292
Total Operating Expenses	\$ 455,689	\$ 821,342	\$ 621,547	\$ 40,321	\$ 804,926	\$ 463,750	\$ 3,207,575

SEE INDEPENDENT AUDITORS' REPORT

The Notes to Financial Statements are an integral part of this statement

SAMPLE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 1 Summary of significant accounting policies

History

Sample Association (the "Association") is a trade association of industry professionals. The Association is exempt from income taxes under section 501(c)(6) of the Internal Revenue Code.

Method of accounting

Assets, liabilities, income and expenses are reported using the accrual basis of accounting, whereby income is recorded when earned and expenses as incurred.

Volunteer activities

A large number of people have contributed significant amounts of time to the activities of the Association. The financial statements do not reflect the value of these contributed services because they do not meet the recognition criteria of Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* (SFAS No. 116).

Basis of presentation

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 Associations*. Under SFAS No. 117, the Association is required to report its financial position and activities according to three classes of assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Functional activities

The costs of providing 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.

Fixed assets and depreciation

Fixed assets are stated at cost, or in the case of donated assets, at estimated market value at the date of gift. Depreciation is calculated using the straight-line method of accounting based on the estimated useful lives of the assets.

Computer equipment	5 years
Vehicles	5 years
Furniture and fixtures	7 years
Buildings	20 years

SEE INDEPENDENT AUDITORS' REPORT

SAMPLE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 1 Summary of significant accounting policies (continued)

Income taxes

The Association is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code and is also exempt from state income taxes, except for income taxes on unrelated business income, if any. For the year ended December 31, 2003, the Association had no unrelated business income subject to income tax. Accordingly, no provision for income taxes has been included in these financial statements. In addition, the Association qualifies for the charitable contribution deduction under Section 170(b)(1) (A) and has been classified as an Association that is not a private foundation under Section 509(a)(2).

Cash and cash equivalents

The Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Member dues

Dues are recorded in the applicable membership period.

Publications

Revenue from publications and software, professional development and member service conferences is recognized when goods are shipped to customers or services are rendered.

Revenue from subscriptions is deferred and recognized on the straight-line method over the term of the subscriptions, which is primarily for one year.

Advertising revenue is recorded as publications are issued.

Affinity contracts

Revenue related to affinity contracts is recognized when earned.

Statements of cash flows

There was no cash paid for interest or income taxes during the year.

SEE INDEPENDENT AUDITORS' REPORT

SAMPLE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 1 Summary of significant accounting policies (continued)

Restricted and unrestricted revenue and support

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which support is recognized. All other payor-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 restriction.

Investments

The Association carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the balance sheet. Unrealized gains and losses are included in the change in net assets in the accompanying *Statement of Activities*.

Web site costs

The Association accounts for its Web site development costs in accordance with Emerging Issues Task Force Issue No. 00-2, *Accounting for Web Site Development Costs* and Statement of Position 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1). All costs incurred in the planning stage of developing a Web site are expensed as incurred as are internal and external training costs and maintenance costs. Fees incurred to Internet service providers in return for hosting a Web site on their servers are expensed over the period of benefit.

Comprehensive income

The Association's comprehensive income is comprised of unrealized losses on available-for-sale investments. Comprehensive income is reflected in the statement of activities.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

SEE INDEPENDENT AUDITORS' REPORT

SAMPLE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

Note 2 Investments

Investments are stated at fair value and consists of the following:

	Fair Value
U.S. Treasury notes	\$ 80,165
U.S. Treasury bonds	199,752
Federal National Mortgage Association notes	120,529
FHLMC obligations	11,244
FNMA investment pools	145,499
GNMA investment pools	475,445
Corporate bonds	317,447
Cash management fund	188,354
Stocks	1,096,313
Total	\$ 2,634,748

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2003.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 110,089	\$ --	\$ --	\$ 110,089
Realized gains	252,472	--	--	252,472
Investment fees	(17,549)	--	--	(17,549)
Total investment return	\$ 345,012	\$ --	\$ --	\$ 345,012

Note 3 Property and equipment

Property and equipment at December 31, 2003 stated at cost less depreciation, consists of the following:

Land and building	\$ 248,385
Furniture, fixtures and equipment	85,641
Vehicles	20,608
	354,634
Accumulated depreciation	218,215
Net property and equipment	\$ 136,419

SEE INDEPENDENT AUDITORS' REPORT

SAMPLE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 4 Capital leases

The Company has various leases for machinery and equipment, which meet the criteria for capital leases. These leases expire between 2004 and 2008.

The following is an analysis of leased property under capital leases at December 31, 2003:

Machinery, equipment, and office	
Furniture	\$ 111,052
Less accumulated depreciation	<u>28,521</u>
	<u>\$ 82,531</u>

The following is a schedule by year of future minimum lease payments under capital leases together with the present value of net minimum lease payments as of December 31, 2003:

Year ending December 31,	
2004	\$ 27,957
2005	25,435
2006	19,576
2007	17,461
2008 and beyond	<u>17,201</u>
Net minimum lease payments	107,630
Less amount representing interest	<u>22,847</u>
Present value of net minimum lease	
Payments	84,783
Less current portion	<u>21,194</u>
	<u>\$ 63,589</u>

Note 5 Retirement plan

The Company has adopted a qualified deferred compensation retirement plan pursuant to Internal Revenue Code Section 401(K). The plan allows eligible employees the option to defer a portion of their compensation, subject to annual limits. Contributions to the plan totaled \$21,682 for the year ended December 31, 2003.

SEE INDEPENDENT AUDITORS' REPORT

SAMPLE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 6 Restrictions on net assets

Unrestricted net assets consists of net assets which are available for the general operation of the Association and a board designated restriction of \$1,500,000 to provide long term source of income for the general operations of the Association.

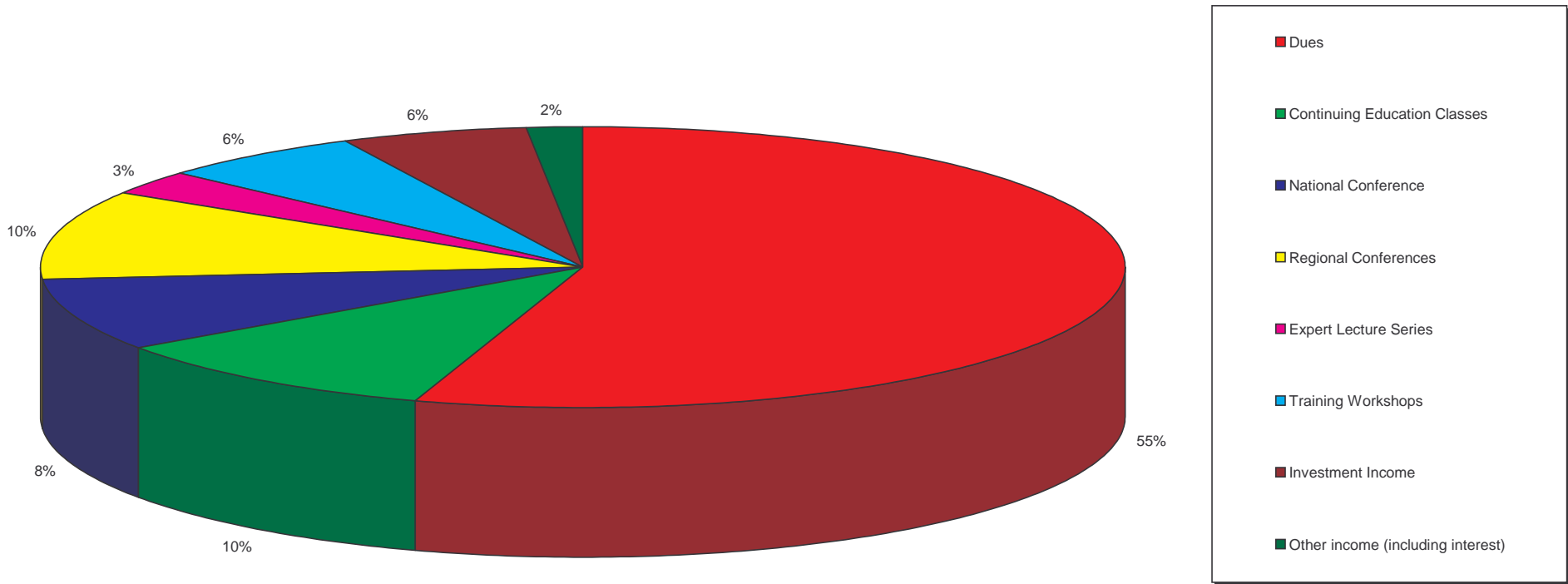
Temporarily restricted net assets consist of expenditure restricted net assets available for subsequent year's activities.

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets can be used to support the Association's general activities.

SEE INDEPENDENT AUDITORS' REPORT

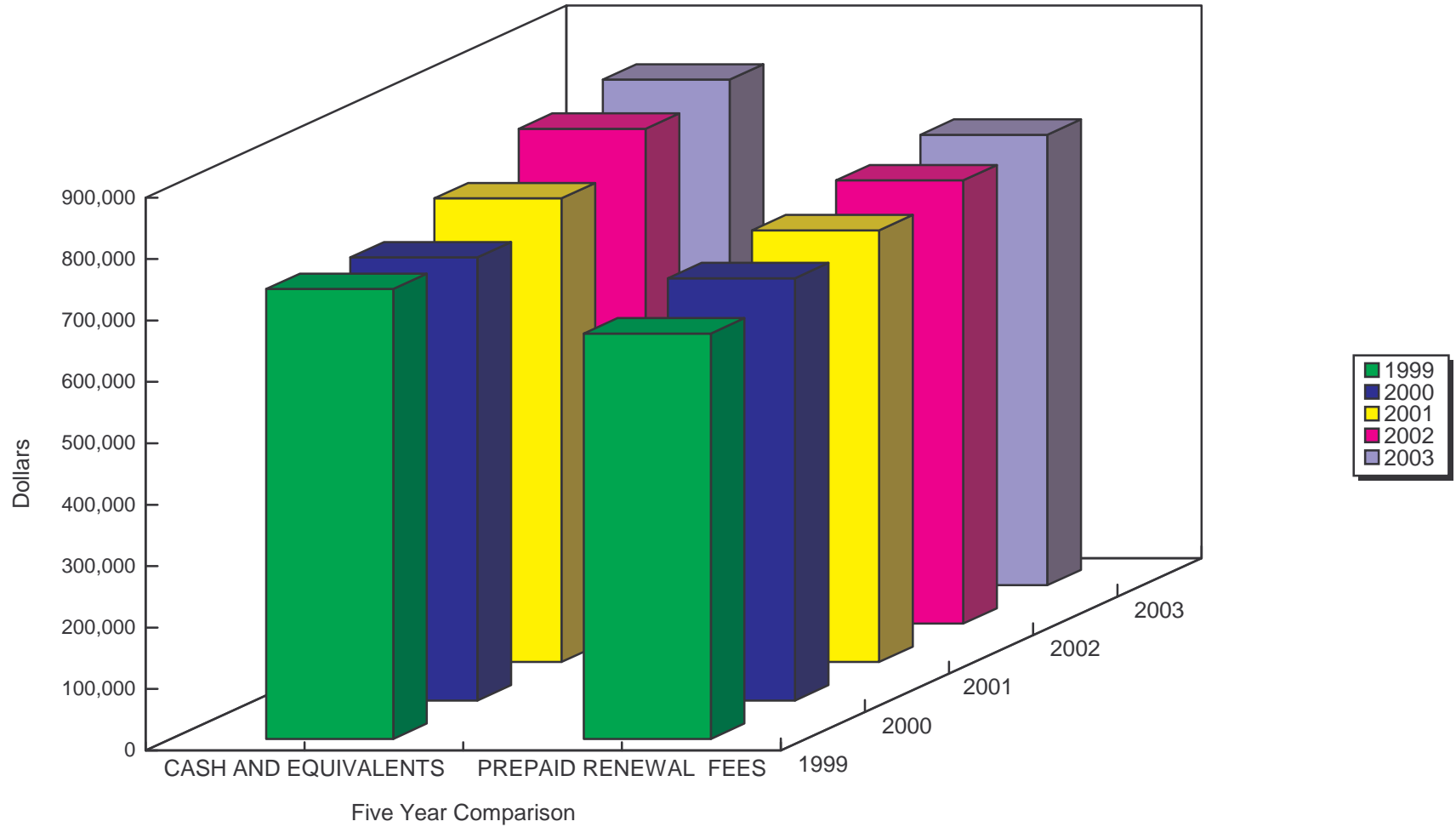
APPENDIX
GRAPHICAL ANALYSIS

Sample Association
1/1/2003 - 12/31/2003 Revenue By Program



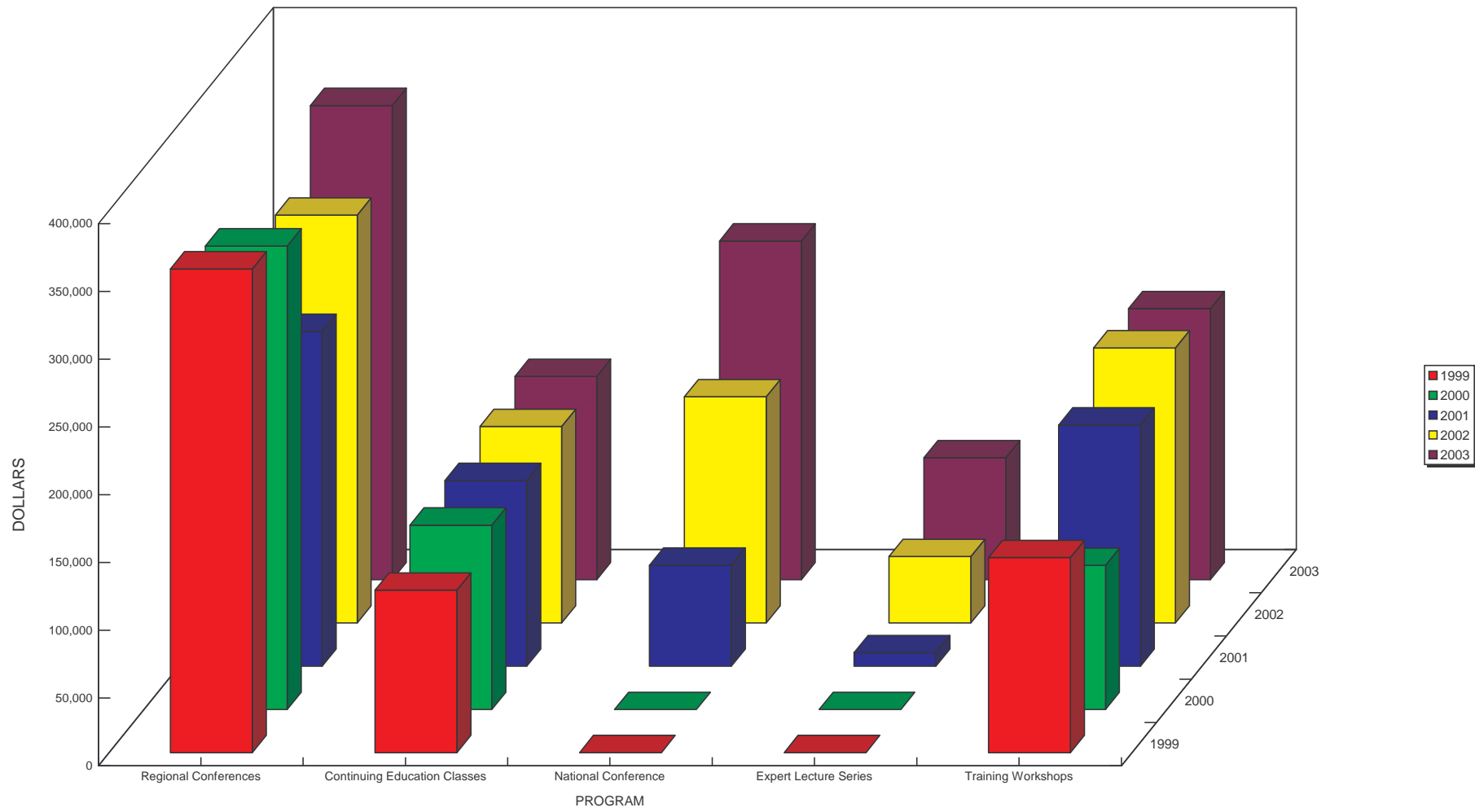
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Sample Association
Cash Reserves and Prepaid Renewal Fees



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Sample Association
Education and Registration Fee Comparison for 1999 - 2003



SEE INDEPENDENT AUDITORS' REPORT