

**ALPHA-1 ANTITRYPSIN DEFICIENCY ASSOCIATION**

FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT

For The Year Ended June 30, 2003

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**ALPHA-1 ANTITRYPSIN DEFICIENCY ASSOCIATION**  
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**Tautges Redpath, Ltd.**

Certified Public Accountants and Consultants

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Alpha-1 Antitrypsin Deficiency Association  
Annapolis, MD

We have audited the accompanying statement of financial position of Alpha-1 Antitrypsin Deficiency Association (a not-for-profit corporation) as of June 30, 2003 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Association'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 Alpha-1 Antitrypsin Deficiency Association 2002 financial statements and, in our report dated April 10, 2003 we expressed an unqualified opinion on those financial statements.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

Due to conditions more fully described in Note 4, underlying documentation for certain expenses could not be located. Accordingly, we were unable to fully substantiate the expenses reported on Statement 2.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary if substantiation for all expenses had been available, the financial statements referred to in the first paragraph presents fairly, in all material respects, the financial position of Alpha-1 Antitrypsin Deficiency Association, as of June 30, 2003, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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As discussed in Note 4 to the financial statements, there are conditions that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 4. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

December 8, 2003

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.  
Certified Public Accountants

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## **FINANCIAL STATEMENTS**

**ALPHA-1 ANTITRYPSIN DEFICIENCY ASSOCIATION**

## STATEMENT OF FINANCIAL POSITION

June 30, 2003

With Comparative Amounts For June 30, 2002

**Statement 1**

|                                      | <u>2003</u>                 | <u>2002</u>                 |
|--------------------------------------|-----------------------------|-----------------------------|
| Assets:                              |                             |                             |
| Cash and cash equivalents            | \$149,187                   | \$104,562                   |
| Investments                          | -                           | 8,081                       |
| Accounts receivable                  | 35,100                      | 26,181                      |
| Prepaid expenses                     | -                           | 4,971                       |
| Subtotal                             | <u>184,287</u>              | <u>143,795</u>              |
| Fixed assets:                        |                             |                             |
| Computer and office equipment        | -                           | 55,384                      |
| Less - accumulated depreciation      | -                           | (37,938)                    |
| Net fixed assets                     | <u>0</u>                    | <u>17,446</u>               |
| <br>Total assets                     | <br><u><u>\$184,287</u></u> | <br><u><u>\$161,241</u></u> |
| <br>Liabilities and Net Assets       |                             |                             |
| Liabilities:                         |                             |                             |
| Accounts payable                     | \$211,390                   | \$111,210                   |
| Accrued expenses                     | -                           | 18,312                      |
| Total liabilities                    | <u>211,390</u>              | <u>129,522</u>              |
| <br>Net assets:                      |                             |                             |
| Unrestricted                         | (330,393)                   | (223,481)                   |
| Temporarily restricted               | 303,290                     | 255,200                     |
| Total net assets                     | <u>(27,103)</u>             | <u>31,719</u>               |
| <br>Total liabilities and net assets | <br><u><u>\$184,287</u></u> | <br><u><u>\$161,241</u></u> |

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

**ALPHA-1 ANTITRYPSIN DEFICIENCY ASSOCIATION**

STATEMENT OF ACTIVITIES

Statement 2

For The Year Ended June 30, 2003

With Comparative Totals For The Year Ended June 30, 2002

|   | Unrestricted       | Temporarily<br>Restricted | Totals            |                 |
|---|--------------------|---------------------------|-------------------|-----------------|
|   |                    |                           | 2003              | 2002            |
| Revenue:  |                    |                           |                   |                 |
| Membership dues   | \$29,806           | \$ -                      | \$29,806          | \$65,527        |
| Contributions and memorials                                 | 318,233            | 85,000                    | 403,233           | 615,926         |
| Contributed services and in-kind contributions              | -                  | -                         | -                 | 9,293           |
| Conference revenue  | 15,030             | -                         | 15,030            | 39,045          |
| Special event - golf tournament                             | -                  | -                         | -                 | 36,914          |
| Other events  | -                  | -                         | -                 | 24,081          |
| Sales of materials  | 333                | -                         | 333               | 5,754           |
| Miscellaneous income  | -                  | -                         | -                 | 3,760           |
| Investment income:  |                    |                           |                   |                 |
| Interest and dividends                                      | 30                 | -                         | 30                | 1,570           |
| (Decrease) in value of investments                          | (1,892)            | -                         | (1,892)           | (2,160)         |
| Total Revenue   | <u>361,540</u>     | <u>85,000</u>             | <u>446,540</u>    | <u>799,710</u>  |
| Expenses and losses:  |                    |                           |                   |                 |
| Functional expenses:  |                    |                           |                   |                 |
| Program expenses  | 428,901            | -                         | 428,901           | 699,993         |
| Management and general                                      | 145,096            | -                         | 145,096           | 210,839         |
| Fundraising   | 43,216             | -                         | 43,216            | 85,439          |
| Total functional expenses                                   | <u>617,213</u>     | <u>0</u>                  | <u>617,213</u>    | <u>996,271</u>  |
| Loss on disposal of assets                                  | 17,446             | -                         | 17,446            | -               |
| Total expenses and losses                                   | <u>634,659</u>     | <u>0</u>                  | <u>634,659</u>    | <u>996,271</u>  |
| Increase (decrease) in net assets before reclassification   | (273,119)          | 85,000                    | (188,119)         | (196,561)       |
| Net assets released from restrictions                       | <u>36,910</u>      | <u>(36,910)</u>           | <u>-</u>          | <u>-</u>        |
| Increase (decrease) in net assets before extraordinary item | (236,209)          | 48,090                    | (188,119)         | (196,561)       |
| Extraordinary item - forgiveness of debt                    | <u>129,297</u>     | <u>-</u>                  | <u>129,297</u>    | <u>-</u>        |
| Increase (decrease) in net assets                           | (106,912)          | 48,090                    | (58,822)          | (196,561)       |
| Net assets - beginning of year                              | <u>(223,481)</u>   | <u>255,200</u>            | <u>31,719</u>     | <u>228,280</u>  |
| Net assets - end of year                                    | <u>(\$330,393)</u> | <u>\$303,290</u>          | <u>(\$27,103)</u> | <u>\$31,719</u> |

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

**ALPHA-1 ANTITRYPSIN DEFICIENCY ASSOCIATION****STATEMENT OF FUNCTIONAL EXPENSES****Statement 3**

For The Year Ended June 30, 2003

With Comparative Totals For The Year Ended June 30, 2002

|                                 | Program<br>Services | Management<br>and General | Fundraising     | Totals           |                  |
|---------------------------------|---------------------|---------------------------|-----------------|------------------|------------------|
|                                 |                     |                           |                 | 2003             | 2002             |
| Expenses:                       |                     |                           |                 |                  |                  |
| Wages                           | \$119,226           | \$16,945                  | \$11,557        | \$147,728        | \$316,063        |
| Payroll taxes                   | 10,929              | 1,750                     | 1,072           | 13,751           | 27,163           |
| Employee benefits               | 19,583              | 4,535                     | 1,797           | 25,915           | 27,131           |
| Contractual services            | 52,205              | 61,363                    | 9,005           | 122,573          | 174,015          |
| Seminars and meeting expenses   | 83,665              | 750                       | -               | 84,415           | 164,191          |
| Printing and postage            | 26,211              | 3,270                     | 2,249           | 31,730           | 84,162           |
| Support group expenses          | -                   | -                         | 3,351           | 3,351            | 14,622           |
| Office supplies and maintenance | 33,677              | 5,779                     | 1,457           | 40,913           | 23,838           |
| Contributions to others         | 3,391               | -                         | -               | 3,391            | 42,384           |
| Office rent                     | 25,368              | 16,885                    | 2,622           | 44,875           | 21,794           |
| Depreciation expense            | -                   | -                         | -               | -                | 4,168            |
| Dues and subscriptions          | -                   | 583                       | -               | 583              | 7,482            |
| Travel and entertainment        | 20,967              | 20,406                    | 9,056           | 50,429           | 22,270           |
| Telephone                       | 30,213              | 4,159                     | 940             | 35,312           | 24,656           |
| Insurance                       | -                   | 1,995                     | -               | 1,995            | 6,417            |
| Bad debts allowance             | -                   | -                         | -               | -                | 26,403           |
| Miscellaneous                   | 3,466               | 6,676                     | 110             | 10,252           | 9,512            |
| Total expenses                  | <u>\$428,901</u>    | <u>\$145,096</u>          | <u>\$43,216</u> | <u>\$617,213</u> | <u>\$996,271</u> |

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

**ALPHA-1 ANTITRYPSIN DEFICIENCY ASSOCIATION****STATEMENT OF CASH FLOWS**

For The Year Ended June 30, 2003

With Comparative Amounts For The Year Ended June 30, 2002

**Statement 4**

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|  | <u>2003</u>             | <u>2002</u>             |
|--|-------------------------|-------------------------|
| Cash flows from operating activities:                |                         |                         |
| (Decrease) in net assets                             | (\$58,822)              | (\$196,561)             |
| Adjustments:   |                         |                         |
| Depreciation   | -                       | 4,168                   |
| Loss on disposal of fixed assets                     | 17,446                  | -                       |
| (Decrease) in fair value of investments              | 1,892                   | 2,160                   |
| Changes in assets and liabilities                    |                         |                         |
| Receivables  | (8,919)                 | 10,941                  |
| Prepaid expenses and other assets                    | 4,971                   | (676)                   |
| Accounts payable                                     | 100,180                 | 93,631                  |
| Accrued expenses                                     | (18,312)                | 10,269                  |
| Deferred revenue                                     | -                       | (11,375)                |
| Net cash provided (used) by operating activities     | <u>38,436</u>           | <u>(87,443)</u>         |
| Cash flows from investing activities:                |                         |                         |
| Purchase of equipment                                | -                       | (3,399)                 |
| Liquidation of investments                           | 6,189                   | -                       |
| Net cash provided (used) by investing activities     | <u>6,189</u>            | <u>(3,399)</u>          |
| Net increase (decrease) in cash and cash equivalents | 44,625                  | (90,842)                |
| Cash and cash equivalents - beginning of period      | <u>104,562</u>          | <u>195,404</u>          |
| Cash and cash equivalents - end of period            | <u><u>\$149,187</u></u> | <u><u>\$104,562</u></u> |

The accompanying notes are an integral part of these financial statements

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**ALPHA-1 ANTITRYPSIN DEFICIENCY ASSOCIATION**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003

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**Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business and Organization**

The Alpha-1 Antitrypsin Deficiency Association (the Association) is a not-for-profit corporation organized in 1991, which is dedicated to the identification, education and support of Alpha-1 afflicted members throughout the Country. The Association was formerly known as the Alpha-1 Antitrypsin Deficiency National Association. The Association is supported primarily through contributions and membership dues. Its programs include 51 support groups, public education, conferences, detection, advocacy and support efforts to find a cure.

**Method of Accounting**

The records of the Association are maintained on the accrual method. Under this method, revenue is recognized as it is earned and expenses are recorded as they are incurred. Unconditional promises to give, pledges and contributions are recognized when received.

**Financial Statement 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 Organizations*. Under SFAS No. 117, the Association is required to report information regarding its financial position and activities according to three classes of net assets: a) unrestricted net assets; b) temporarily restricted assets; and, c) permanently restricted net assets. Unrestricted net assets are not subject to donor imposed stipulations. Temporarily restricted net assets are subject to donor imposed stipulations that may or will be met, either by actions of the Association and/or passage of time. When a restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restriction. Donor restricted contributions that are met in the same reporting period are reported as unrestricted.

**Contributions**

The Association accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board in SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

All donor-restricted contributions are reported as increases 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.

**ALPHA-1 ANTITRYPSIN DEFICIENCY ASSOCIATION**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003

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**Cash and Cash Equivalents**

The Association considers all highly liquid investments, with a maturity of three months or less when purchased, to be cash equivalents. Cash balances are insured by the Federal Depository Insurance Company (FDIC) up to \$100,000. The Association's bank balance occasionally exceeds this insured limit.

**Income Tax Status**

The Association is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and comparable State law, and contributions to it are tax deductible within the limitations prescribed by the Code. The Association has been classified as a publicly-supported organization which is not a private foundation under Section 509(a) of the Code.

**Fixed Assets**

Fixed assets are recorded at cost except for donated fixed assets which are recorded at estimated fair value when received. Depreciation is provided over the estimated useful life of each class of depreciable assets using the straight-line basis. The estimated useful lives are as follows:

|                               |             |
|-------------------------------|-------------|
| Computer and office equipment | 5 – 7 years |
| Leasehold improvements        | 20 years    |

Normal repair and maintenance expenses are charged to current operations as incurred. The Association capitalizes property and equipment additions in excess of \$1,000.

During 2003 all fixed assets were liquidated. The Association may acquire fixed assets in the future.

**Compensated Absences**

The Association has a compensated absences policy which provides for payment of accrued vacation time for qualifying, terminating employees. As of June 30, 2003, the Association had no paid employees or outstanding obligations to any former employees.

**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. See Note 4 for additional comments on estimates.

**Allocation of Functional Expenses**

Functional expenses have been allocated between program services and supporting services based on an analysis of personnel time and space utilized for the related activities.

**ALPHA-1 ANTITRYPSIN DEFICIENCY ASSOCIATION**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003

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**Contributed Services**

The Association records contributed services in accordance with SFAS No. 116. There were no such contributed services made in 2003.

**Prior Year Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2002, from which the summarized information was derived.

Certain prior year amounts have been reclassified to conform with current year presentation.

**Note 2 LIMITED NUMBER OF CONTRIBUTORS**

Recorded contribution revenue from two sources represented approximately 64% of the total revenue for the Association for the year ended June 30, 2003 as follows:

|                   |                         |
|-------------------|-------------------------|
| AlphaNet, Inc.    | \$168,111               |
| Bayer Corporation | <u>117,500</u>          |
|                   | <u><u>\$285,611</u></u> |

**ALPHA-1 ANTITRYPSIN DEFICIENCY ASSOCIATION**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003

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**Note 3 TEMPORARILY RESTRICTED NET ASSET BALANCE**

Due to conditions described in Note 4, certain restrictions had to be estimated. It is reasonably possible that as records are clarified, the estimated restricted balances could change prior to June 30, 2004. The amounts below are reported at the high end of the estimated range and thus any such changes would likely decrease restricted net assets and increase unrestricted net assets.

Temporarily restricted net assets at June 30, 2003 are as follows:

|   |                  |
|---|------------------|
| AlphaNet Grant:                             |                  |
| <i>Disease management plan</i>              | \$10,000         |
| Bayer Corporation:                          |                  |
| <i>Compassionate care program</i>           | 60,000           |
| <i>Consumer and industry summit meeting</i> | 56,276           |
| <i>Patient services consortium</i>          | 60,000           |
| <i>Develop Alpha-1 speakers bureau</i>      | 85,000           |
| <i>Rich Sharp research project</i>          | 2,500            |
| Bayer and Aventis Behring:                  |                  |
| <i>Peer Audit Guide</i>                     | 22,000           |
| <i>Website maintenance and sponsorship</i>  | <u>7,514</u>     |
|   | <u>\$303,290</u> |

**ALPHA-1 ANTITRYPSIN DEFICIENCY ASSOCIATION**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003

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**Note 4 FINANCIAL CONDITION**

**CONDITION**

The Association's financial condition deteriorated during the past two years so that unrestricted net assets at June 30, 2003 were negative \$330,393. During the year, the Association vacated its Minnesota office and moved to Washington D.C. As conditions deteriorated, all employees either resigned or were terminated and the office in Washington D.C. was vacated as of November 30, 2002. After this time, the Association was operated solely by its volunteer board of directors. The board of directors has contracted AlphaNet, Inc. to provide management, administrative and other services for the Association. The Association's main office is now located in Annapolis, MD. The amount of unrestricted net assets at June 30, 2003 raises substantial doubt about the Association's ability to continue as a going concern.

**MANAGEMENT PLANS**

Management has stated its goal to regain a positive financial condition with the help of AlphaNet, Inc., the Association's membership and benefactors. To address this condition, management has taken the following actions:

- Settled a lawsuit with a former employee in August 2003.
- Negotiated settlements with numerous creditors to avoid bankruptcy, which has resulted in creditors forgiving debt totaling \$129,297 during the year ended June 30, 2003. Additional amounts totaling \$31,218 were forgiven through November 30, 2003.
- Secured several agreements in 2003 with AlphaNet, Inc. (a 501(c)(3) not-for-profit corporation) which include the following:
  - \$125,000 grant awarded in January 2003 to fund legal, accounting, audit and other services. \$50,000 of the total was designated to settle unpaid debt.
  - AlphaNet, Inc. will provide management, administrative and other services for the Association to help re-establish their non-profit service commitment for people afflicted with Alpha-1.
  - \$100,000 grant awarded in August 2003 to assist the Association in funding the programs and services provided to individuals suffering from Alpha Antitrypsin Deficiency.
- Began the process of clarifying donor restrictions.
- Established a new main office with staffing in Annapolis, MD.

**Note 5 EXTRAORDINARY ITEM**

As discussed in the financial condition footnote, \$129,297 of debt was forgiven by creditors during the year ended June 30, 2003. The Association deemed the event unusual and infrequent and therefore it is reported as an extraordinary item.

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