



**AMERICAN ASSOCIATION FOR
LABORATORY ACCREDITATION**

Financial Statements

For the Years Ended December 31, 2005 and 2004



**and
Report Thereon**





RAFFA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
American Association for Laboratory Accreditation

CONSULTING

ACCOUNTING

TECHNOLOGY

*Certified Public
Accountants*

We have audited the accompanying statements of financial position of the American Association for Laboratory Accreditation (A2LA) as of December 31, 2005 and 2004 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of A2LA's management. Our responsibility is to express an opinion on these 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 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 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 A2LA as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of functional expenses for the years ended December 31, 2005 and 2004 on pages 10 and 11 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

RAFFA, P.C.

Washington, DC
February 17, 2006

AMERICAN ASSOCIATION FOR LABORATORY ACCREDITATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,134,314 | 718,881 |
| Accounts receivable, net | 679,178 | 534,066 |
| Prepaid expenses | 66,994 | 48,198 |
| Travel advances | - | 3,156 |
| Investments | 2,261,417 | 2,140,717 |
| Furniture and equipment, net | 124,075 | 107,829 |
| Cash surrender value of life insurance | 36,554 | 31,694 |
| Security deposits | 12,123 | 12,123 |
| Note receivable | 8,544 | 10,403 |
| | <u>\$ 4,323,199</u> | <u>\$ 3,607,067</u> |
| TOTAL ASSETS | | |
| | <u>\$ 4,323,199</u> | <u>\$ 3,607,067</u> |
| LIABILITIES AND NET ASSETS | | |
| Accounts payable | \$ 290,075 | \$ 190,826 |
| Accrued expenses | 188,467 | 160,284 |
| Deferred membership dues | 25,820 | 28,610 |
| Refundable advances | 995,516 | 665,251 |
| | <u>1,499,878</u> | <u>1,044,971</u> |
| TOTAL LIABILITIES | | |
| | <u>1,499,878</u> | <u>1,044,971</u> |
| Risks and Commitments | | |
| Net Assets | | |
| Unrestricted | <u>2,823,321</u> | <u>2,562,096</u> |
| | <u>\$ 4,323,199</u> | <u>\$ 3,607,067</u> |
| TOTAL LIABILITIES AND NET ASSETS | | |
| | <u>\$ 4,323,199</u> | <u>\$ 3,607,067</u> |

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

AMERICAN ASSOCIATION FOR LABORATORY ACCREDITATION

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|---|---------------------|---------------------|
| REVENUE AND SUPPORT | | |
| Assessment income | \$ 4,946,817 | \$ 4,760,359 |
| Accreditation | 2,219,100 | 2,205,998 |
| A2LA public training | 383,871 | 246,742 |
| Membership | 38,335 | 39,300 |
| Agreements | 152,483 | 373,844 |
| Audit fees and registration | - | 11,228 |
| Miscellaneous | 13,506 | 8,356 |
| | <u>7,754,112</u> | <u>7,645,827</u> |
| TOTAL REVENUE AND SUPPORT | | |
| EXPENSES | | |
| Program Services | | |
| Accreditations and assessment costs | 6,863,215 | 6,280,836 |
| Training | 285,296 | 232,181 |
| Agreements | 139,902 | 337,949 |
| Membership | 47,245 | 49,313 |
| | <u>7,335,658</u> | <u>6,900,279</u> |
| Total Program Services | | |
| Support Services | | |
| Management and general | 342,512 | 317,567 |
| | <u>7,678,170</u> | <u>7,217,846</u> |
| TOTAL EXPENSES | | |
| Change in Unrestricted Net Assets from Operations | 75,942 | 427,981 |
| Investment income, net of fees | 185,283 | 149,543 |
| | <u>261,225</u> | <u>577,524</u> |
| Change in Unrestricted Net Assets | | |
| UNRESTRICTED NET ASSETS, BEGINNING OF YEAR | 2,562,096 | 1,984,572 |
| UNRESTRICTED NET ASSETS, END OF YEAR | <u>\$ 2,823,321</u> | <u>\$ 2,562,096</u> |

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

AMERICAN ASSOCIATION FOR LABORATORY ACCREDITATION

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2005 and 2004
Increase (Decrease) in Cash and Cash Equivalents

| | <u>2005</u> | <u>2004</u> |
|---|---------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 261,225 | \$ 577,524 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | | |
| Depreciation | 49,557 | 50,403 |
| Allowance for doubtful accounts | 1,759 | 1,416 |
| Loss on disposal of furniture and equipment | 2,911 | - |
| Realized gains on investments | (46,171) | (79,391) |
| Unrealized gains on investments | (46,455) | (39,467) |
| Change in cash surrender value of life insurance | (4,860) | (5,266) |
| Changes in assets and liabilities | | |
| Accounts receivable | (146,871) | (69,201) |
| Interest receivable | - | 3,491 |
| Prepaid expenses | (18,796) | (7,283) |
| Travel advances | 3,156 | 3,963 |
| Accounts payable | 99,249 | (133,927) |
| Accrued expenses | 28,183 | 14,057 |
| Deferred membership dues | (2,790) | 205 |
| Refundable advances | 330,265 | (247,275) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>510,362</u> | <u>69,249</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from note receivable | 1,859 | 2,267 |
| Proceeds from sales of investments | 882,646 | 2,569,391 |
| Purchase of investments | (910,720) | (2,300,945) |
| Acquisition of furniture and equipment | (68,714) | (32,331) |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | <u>(94,929)</u> | <u>238,382</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Borrowings under line of credit agreement | 20,000 | - |
| Repayments on line of credit agreement | (20,000) | - |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | <u>-</u> | <u>-</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 415,433 | 307,631 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>718,881</u> | <u>411,250</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 1,134,314</u> | <u>\$ 718,881</u> |

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

AMERICAN ASSOCIATION FOR LABORATORY ACCREDITATION

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2005 and 2004

1. Organization and Summary of Significant Accounting Policies

Organization

The American Association for Laboratory Accreditation (A2LA) is a nonprofit organization organized and operated under Section 501(c)(3) of the Internal Revenue Code. A2LA promotes scientific research and testing for public safety in all classes of technology by accrediting laboratories and otherwise furthering scientific research and testing for public interest and welfare. The activities of A2LA are funded primarily through program service revenue.

Cash and Cash Equivalents

For purposes of the statement of cash flows, A2LA considers all demand deposits and money market accounts to be cash equivalents.

Investments

Investments are comprised of equity and fixed income mutual funds, government securities and certificates of deposit and are carried at fair value based on quoted market prices.

Furniture, Equipment and Related Depreciation

Furniture and equipment are stated at cost. Depreciation is provided using the straight-line method over estimated useful lives of three to ten years, with no salvage value. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed as incurred. Upon the retirement or disposal of assets, the resulting gain or loss is included in revenue or expense.

Classification of Net Assets

Unrestricted net assets represent the portion of expendable funds that are available for A2LA's operations.

Revenue Recognition

A2LA receives application fees to initiate the accreditation and reaccreditation process. It is A2LA's policy that in the event an applicant withdraws their application for accreditation or reaccreditation before the completion of the assessment process, they may apply for a refund of 50% of the annual fee, and all of the assessor deposits less all costs incurred to date in the assessment process. The application fee is nonrefundable. The annual fee and assessor deposits held are not to be used for any other purposes.

AMERICAN ASSOCIATION FOR LABORATORY ACCREDITATION

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2005 and 2004

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Therefore, half of the annual fee is recorded as revenue upon its receipt by A2LA while the remaining half is recorded as a refundable advance until the completion of the assessment process. Assessor deposits are deferred until the assessment is complete. At that time, the assessor deposit is recognized as revenue. When assessor expenses exceed the deposits received, the applicant is invoiced and this amount is included in accounts receivable in the accompanying statement of financial position. If the deposits received exceed assessor expenses, they are included in accounts payable in the accompanying statement of financial position until a refund is made to the applicant. Effective January 1, 2004, the application fee, first year annual fee and assessor deposits were reduced while the assessment daily rate was increased.

Membership dues are recorded as revenue on the day the membership period commences. Any membership dues received prior to the commencement are recorded as deferred membership dues.

Functional Expenses

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

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.

2. Accounts Receivable

Accounts receivable as of December 31, 2005 and 2004, were comprised of the following:

| | <u>2005</u> | <u>2004</u> |
|---------------------------------------|-------------------|-------------------|
| Accreditation | \$ 647,695 | \$ 496,593 |
| Agreements | 35,881 | 36,581 |
| Training | <u>3,774</u> | <u>7,305</u> |
| Total | 687,350 | 540,479 |
| Less: Allowance for doubtful accounts | <u>(8,172)</u> | <u>(6,413)</u> |
| Accounts receivable, net | <u>\$ 679,178</u> | <u>\$ 534,066</u> |

Continued

AMERICAN ASSOCIATION FOR LABORATORY ACCREDITATION

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2005 and 2004

3. Investments

Investments as of December 31, 2005 and 2004 were comprised of the following:

| | <u>2005</u> | | <u>2004</u> | |
|-------------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> |
| Mutual funds | \$1,502,456 | \$1,680,059 | \$1,120,626 | \$1,244,654 |
| Certificates of deposit | <u>597,000</u> | <u>581,358</u> | <u>901,982</u> | <u>896,063</u> |
| Total | <u>\$2,099,456</u> | <u>\$2,261,417</u> | <u>\$2,022,608</u> | <u>\$2,140,717</u> |

Investment income for the years ended December 31, 2005 and 2004 is summarized as follows:

| | <u>2005</u> | <u>2004</u> |
|--------------------------------|-------------------|-------------------|
| Unrealized gains | \$ 46,455 | \$ 39,467 |
| Interest and dividend income | 101,536 | 48,783 |
| Realized gains | <u>46,171</u> | <u>79,391</u> |
| Total | 194,162 | 167,641 |
| Investment management fees | <u>(8,879)</u> | <u>(18,098)</u> |
| Investment income, net of fees | <u>\$ 185,283</u> | <u>\$ 149,543</u> |

Included in investment income is interest earned on cash equivalents for the years ended December 31, 2005 and 2004 of \$17,862 and \$10,674, respectively.

4. Furniture, Equipment and Accumulated Depreciation

A2LA held the following furniture and equipment as of December 31, 2005 and 2004:

| | <u>2005</u> | <u>2004</u> |
|--------------------------------|-------------------|-------------------|
| Furniture and fixtures | \$ 192,203 | \$ 178,929 |
| Computer equipment | <u>178,749</u> | <u>207,311</u> |
| Total furniture and equipment | 370,952 | 386,240 |
| Less: accumulated depreciation | <u>(246,877)</u> | <u>(278,411)</u> |
| Net furniture and equipment | <u>\$ 124,075</u> | <u>\$ 107,829</u> |

Continued

AMERICAN ASSOCIATION FOR LABORATORY ACCREDITATION

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2005 and 2004

5. Risks and Commitments

Operating Leases

A2LA leases its current office space under a ten year, non-cancelable operating lease that expires September 30, 2008. The lease provides for fixed annual increases of 3% and pass through of certain operating costs and taxes. Management of A2LA does not consider the fixed increases significant and records rent expense based on actual payments made each year, rather than on a straight-line basis as required by accounting principles generally accepted in the United States of America.

A2LA also leases office equipment under non-cancelable operating lease agreements expiring from September 2005 to November 2008.

Total expense under all operating leases for the years ended December 31, 2005 and 2004 was \$192,256 and \$205,130, respectively.

As of December 31, 2005, future minimum lease payments required under these operating leases are as follows:

| For the Year Ending <u>December 31,</u> | |
|--|-------------------|
| 2006 | \$ 186,751 |
| 2007 | 186,122 |
| 2008 | <u>126,539</u> |
| Total | <u>\$ 499,412</u> |

Concentration of Risk

A2LA's cash is comprised of an amount held in one financial institution. While the amount at times exceeds the amount guaranteed by Federal agencies and therefore bears some risk, A2LA has not experienced nor does it anticipate any loss of funds. As of December 31, 2005 and 2004, the amount in excess of the Federal Deposit Insurance Corporation (FDIC) limit of \$100,000 was \$910,029 and \$714,010, respectively. These amounts were collateralized by United States Government Agency securities.

AMERICAN ASSOCIATION FOR LABORATORY ACCREDITATION

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2005 and 2004

5. Risks and Commitments (continued)

Line of Credit

A2LA has entered into an unsecured line of credit agreement with a bank for \$100,000 which expires April 1, 2006. Amounts drawn on this line accrue interest at the prime rate, which at December 31, 2005 was 5.35%. There are no amounts outstanding under the line of credit as of December 31, 2005.

6. Cash Surrender Value of Life Insurance

A2LA maintains a supplemental retirement program for a key executive, which is funded through a split-dollar life insurance policy that is owned by the executive and paid for by A2LA. Currently the cumulative premiums payments approximate the cash surrender value of the policy and will remain an asset of A2LA until the executive reaches the age of 65.

7. Pension Plan

A2LA has a defined contribution pension plan under Internal Revenue Code Section 403(b) covering substantially all of its employees. The plan is currently funded by both employer and employee contributions. All contributions are used to purchase tax-deferred annuities and are fully vested in the event of withdrawal from the plan. The employer contributes 10% of eligible employees' base salary to the plan annually. Total contributions made to the plan during the years ended December 31, 2005 and 2004 were \$175,485 and \$161,266, respectively.

8. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, A2LA is a nonprofit scientific organization and is exempt from federal taxes on income other than net unrelated business income. No provision for federal or state income taxes is required as of December 31, 2005 and 2004 as A2LA had no taxable net unrelated business income.

SUPPLEMENTAL INFORMATION

AMERICAN ASSOCIATION FOR LABORATORY ACCREDITATION

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2005

| | Program Services | | | | Total Program Services | Management and General | Total |
|-----------------------------------|--|-------------------|-------------------|------------------|------------------------------|---------------------------|---------------------|
| | Accreditations and Assessment Costs | Training | Agreements | Membership | | | |
| Assessor and auditor expenses | \$ 3,519,751 | \$ - | \$ 98,639 | \$ - | \$ 3,618,390 | \$ - | \$ 3,618,390 |
| Salaries and benefits | 1,262,450 | 26,363 | 7,555 | 10,560 | 1,306,928 | 1,298,428 | 2,605,356 |
| A2LA public training expense | - | 215,302 | - | - | 215,302 | - | 215,302 |
| Rent | - | - | - | - | - | 192,256 | 192,256 |
| Marketing | 140,780 | 5,978 | - | - | 146,758 | - | 146,758 |
| Conclave expense | 106,574 | - | - | 3,036 | 109,610 | - | 109,610 |
| Travel | - | - | - | - | - | 93,184 | 93,184 |
| Technical support | 71,150 | - | 10,443 | - | 81,593 | - | 81,593 |
| Office expense | - | - | - | - | - | 81,142 | 81,142 |
| Legal | - | - | - | - | - | 58,407 | 58,407 |
| Depreciation | - | - | - | - | - | 49,557 | 49,557 |
| Postage | - | - | - | - | - | 48,793 | 48,793 |
| Printing and duplication | - | - | - | - | - | 46,129 | 46,129 |
| Recognition expense | 40,876 | - | - | - | 40,876 | - | 40,876 |
| Accounting | - | - | - | - | - | 40,255 | 40,255 |
| Credit card fees | 30,272 | 6,412 | - | 344 | 37,028 | - | 37,028 |
| Telecommunications | - | - | - | - | - | 34,620 | 34,620 |
| A2LA staff billable | 15,868 | 499 | 14,617 | - | 30,984 | - | 30,984 |
| Insurance | - | - | - | - | - | 22,122 | 22,122 |
| NVCASE Evaluation Expense | 22,000 | - | - | - | 22,000 | - | 22,000 |
| A2LA staff training expense | - | - | - | - | - | 21,974 | 21,974 |
| Board activities | - | - | - | - | - | 21,403 | 21,403 |
| Miscellaneous | - | - | - | - | - | 17,912 | 17,912 |
| Membership Program Expense | - | - | - | 17,121 | 17,121 | - | 17,121 |
| Freight and delivery | - | - | - | - | - | 11,841 | 11,841 |
| Bad debt expense | - | - | - | - | - | 7,307 | 7,307 |
| Temporary help | - | - | - | - | - | 5,386 | 5,386 |
| Foreign Income Tax Withheld | 864 | - | - | - | 864 | - | 864 |
| Management and general allocation | 1,652,630 | 30,742 | 8,648 | 16,184 | 1,708,204 | (1,708,204) | - |
| TOTAL EXPENSES | \$ 6,863,215 | \$ 285,296 | \$ 139,902 | \$ 47,245 | \$ 7,335,658 | \$ 342,512 | \$ 7,678,170 |

AMERICAN ASSOCIATION FOR LABORATORY ACCREDITATION

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2004

| | Program Services | | | | Total Program Services | Management and General | Total |
|-----------------------------------|--|-------------------|-------------------|------------------|------------------------------|---------------------------|---------------------|
| | Accreditations and Assessment Costs | Training | Agreements | Membership | | | |
| Assessor and auditor expenses | \$ 3,457,908 | \$ - | \$ 246,401 | \$ - | \$ 3,704,309 | \$ - | \$ 3,704,309 |
| Salaries and benefits | 1,087,872 | 22,005 | 28,455 | 11,663 | 1,149,995 | 1,163,712 | 2,313,707 |
| Rent | - | - | - | - | - | 205,130 | 205,130 |
| A2LA public training expense | - | 157,236 | - | - | 157,236 | - | 157,236 |
| Conclave expense | 97,337 | - | 1,601 | 3,031 | 101,969 | - | 101,969 |
| Legal | - | - | - | - | - | 78,024 | 78,024 |
| Office expense | - | - | - | - | - | 77,490 | 77,490 |
| Travel | - | - | - | - | - | 75,090 | 75,090 |
| Marketing | 63,266 | 4,631 | - | - | 67,897 | - | 67,897 |
| Technical support | 41,889 | - | 12,769 | - | 54,658 | - | 54,658 |
| Depreciation | - | - | - | - | - | 50,403 | 50,403 |
| A2LA staff billable | 10,807 | 6,725 | 32,706 | - | 50,238 | - | 50,238 |
| Printing and duplication | - | - | - | - | - | 44,436 | 44,436 |
| Postage | - | - | - | - | - | 41,137 | 41,137 |
| Recognition expense | 37,675 | - | - | - | 37,675 | - | 37,675 |
| Telecommunications | - | - | - | - | - | 34,108 | 34,108 |
| Credit card fees | 24,332 | 4,368 | - | 386 | 29,086 | - | 29,086 |
| Accounting | - | - | - | - | - | 24,571 | 24,571 |
| A2LA staff training expense | - | - | - | - | - | 21,029 | 21,029 |
| Insurance | - | - | - | - | - | 20,903 | 20,903 |
| Board activities | - | - | - | - | - | 12,579 | 12,579 |
| Freight and delivery | - | - | - | - | - | 7,636 | 7,636 |
| Bad debt expense | - | - | - | - | - | 6,266 | 6,266 |
| Miscellaneous | - | - | - | - | - | 1,484 | 1,484 |
| Temporary help | - | - | - | - | - | 785 | 785 |
| Management and general allocation | 1,459,750 | 37,216 | 16,017 | 34,233 | 1,547,216 | (1,547,216) | - |
| TOTAL EXPENSES | \$ 6,280,836 | \$ 232,181 | \$ 337,949 | \$ 49,313 | \$ 6,900,279 | \$ 317,567 | \$ 7,217,846 |