

**THE AMERICAN ACADEMY OF
NEUROLOGY AND AFFILIATES**

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

**THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2004 AND 2003**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS	2
CONSOLIDATED STATEMENTS OF ACTIVITY	3
CONSOLIDATED STATEMENTS OF CASH FLOWS	5
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	6
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION	15
SUPPLEMENTARY INFORMATION	
CONSOLIDATING BALANCE SHEET - DECEMBER 31, 2004	16
CONSOLIDATING STATEMENT OF ACTIVITY - DECEMBER 31, 2004	17
CONSOLIDATING BALANCE SHEET - DECEMBER 31, 2003	18
CONSOLIDATING STATEMENT OF ACTIVITY - DECEMBER 31, 2003	19

INDEPENDENT AUDITORS' REPORT

Board of Directors
The American Academy of Neurology and Affiliates
Saint Paul, Minnesota

We have audited the accompanying consolidated balance sheets of The American Academy of Neurology and Affiliates (American Academy of Neurology Foundation and AAN Enterprises, Inc.) as of December 31, 2004 and 2003, and the related consolidated statements of activity and cash flows for the years 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 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 consolidated 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 consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The American Academy of Neurology and Affiliates for the years ended December 31, 2004 and 2003, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
May 5, 2005

**THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003**

ASSETS	2004	2003
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 7,658,163	\$ 8,576,004
Neurology Royalty Receivable	3,163,016	616,428
Contributions Receivable	707,131	730,349
Accounts Receivable	2,028,067	528,489
Inventory	131,415	168,479
Other Receivables	11,790	72,017
Prepaid Expenses	573,624	495,005
Total Current Assets	14,273,206	11,186,771
PROPERTY AND EQUIPMENT		
Office Equipment	874,410	785,997
Leasehold Improvements	326,616	326,616
Total Property and Equipment	1,201,026	1,112,613
Less: Accumulated Depreciation	769,383	687,924
Net Property and Equipment	431,643	424,689
OTHER LONG-TERM ASSETS		
Investments	15,721,113	12,443,525
Contributions Receivable	73,580	219,702
Deferred Income Tax	372,900	595,900
Total Other Long-Term Assets	16,167,593	13,259,127
 Total Assets	 \$ 30,872,442	 \$ 24,870,587
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 863,192	\$ 513,379
Grants Payable	598,439	100,000
Amounts Held for Others	16,600	139,998
Deferred Revenue	4,913,151	4,226,011
Accrued Expenses	981,686	710,614
Total Current Liabilities	7,373,068	5,690,002
LONG-TERM LIABILITIES		
Deferred Revenue	500,000	666,667
Grants Payable	591,392	-
Total Long-Term Liabilities	1,091,392	666,667
 Total Liabilities	 8,464,460	 6,356,669
NET ASSETS		
Unrestricted	19,575,007	15,125,425
Temporarily Restricted	2,492,967	3,087,487
Permanently Restricted	340,008	301,006
Total Net Assets	22,407,982	18,513,918
 Total Liabilities and Net Assets	 \$ 30,872,442	 \$ 24,870,587

See accompanying Notes to Consolidated Financial Statements.

**THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITY
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT				
Annual Meeting Grants and Contributions	\$ -	\$ 1,668,000	\$ -	\$ 1,668,000
Project Grants and Contributions	591,811	1,052,609	39,002	1,683,422
Total Support	591,811	2,720,609	39,002	3,351,422
REVENUE				
Membership	5,416,046	-	-	5,416,046
Annual Meeting	5,790,788	-	-	5,790,788
Projects	58,250	-	-	58,250
Publications	6,194,881	-	-	6,194,881
Products and Services	3,477,866	-	-	3,477,866
Special Courses	1,374,809	4,183	-	1,378,992
Investment Income - Operating	194,788	5,781	-	200,569
Other	138,741	-	-	138,741
Total Revenue	22,646,169	9,964	-	22,656,133
Net Assets Released from Restrictions	3,325,093	(3,325,093)	-	-
Total Support and Revenue	26,563,073	(594,520)	39,002	26,007,555
EXPENSES				
Program Services:				
Membership	2,395,338	-	-	2,395,338
Annual Meeting	6,043,196	-	-	6,043,196
Projects	2,435,019	-	-	2,435,019
Publications	1,764,114	-	-	1,764,114
Committees	2,056,601	-	-	2,056,601
Products and Services	1,190,531	-	-	1,190,531
Special Courses	1,659,021	-	-	1,659,021
Grants and Awards	1,827,616	-	-	1,827,616
Total Program Services	19,371,436	-	-	19,371,436
Support Services:				
Member Development and Fundraising	340,286	-	-	340,286
General and Administrative	3,540,637	-	-	3,540,637
Total Support Services	3,880,923	-	-	3,880,923
Total Expenses	23,252,359	-	-	23,252,359
OPERATING CHANGE IN NET ASSETS	3,310,714	(594,520)	39,002	2,755,196
Non-Operating Investment Income	1,138,868	-	-	1,138,868
TOTAL CHANGE IN NET ASSETS	4,449,582	(594,520)	39,002	3,894,064
Net Assets - Beginning of Year	15,125,425	3,087,487	301,006	18,513,918
NET ASSETS - END OF YEAR	<u>\$ 19,575,007</u>	<u>\$ 2,492,967</u>	<u>\$ 340,008</u>	<u>\$ 22,407,982</u>

See accompanying Notes to Consolidated Financial Statements.

2003

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ -	\$ 1,012,000	\$ -	\$ 1,012,000
626,168	949,308	68,656	1,644,132
<u>626,168</u>	<u>1,961,308</u>	<u>68,656</u>	<u>2,656,132</u>
4,897,973	-	-	4,897,973
4,660,142	-	-	4,660,142
4,000	-	-	4,000
4,111,158	-	-	4,111,158
1,649,028	-	-	1,649,028
1,249,232	1,160	-	1,250,392
281,001	7,684	-	288,685
108,467	-	-	108,467
<u>16,961,001</u>	<u>8,844</u>	<u>-</u>	<u>16,969,845</u>
<u>2,267,022</u>	<u>(2,267,022)</u>	<u>-</u>	<u>-</u>
19,854,191	(296,870)	68,656	19,625,977
2,254,121	-	-	2,254,121
5,501,136	-	-	5,501,136
2,567,129	-	-	2,567,129
1,014,660	-	-	1,014,660
1,680,795	-	-	1,680,795
998,408	-	-	998,408
1,367,599	-	-	1,367,599
624,183	-	-	624,183
<u>16,008,031</u>	<u>-</u>	<u>-</u>	<u>16,008,031</u>
304,268	-	-	304,268
3,132,567	-	-	3,132,567
<u>3,436,835</u>	<u>-</u>	<u>-</u>	<u>3,436,835</u>
<u>19,444,866</u>	<u>-</u>	<u>-</u>	<u>19,444,866</u>
409,325	(296,870)	68,656	181,111
1,713,658	-	-	1,713,658
2,122,983	(296,870)	68,656	1,894,769
13,002,442	3,384,357	232,350	16,619,149
<u>\$ 15,125,425</u>	<u>\$ 3,087,487</u>	<u>\$ 301,006</u>	<u>\$ 18,513,918</u>

**THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 3,894,064	\$ 1,894,769
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	81,459	81,845
Unrealized Gain on Investments	(664,892)	(1,434,098)
Realized Gain on Sale of Investments	(229,209)	(96,631)
Permanently Restricted Contributions Received	(39,002)	(67,205)
Deferred Income Tax	223,000	(155,000)
(Increase) Decrease in Current Assets:		
Neurology Royalty Receivable	(2,546,588)	2,041,818
Contributions Receivable	169,340	407,200
Accounts Receivable	(1,499,578)	(15,187)
Inventory	37,064	(92,246)
Income Tax Receivable	-	1,497
Other Receivables	60,227	70,437
Prepaid Expenses	(78,619)	155,539
Increase (Decrease) in Current Liabilities:		
Accounts Payable	349,813	(249,578)
Grants Payable	1,089,831	(95,000)
Amounts Held for Others	(123,398)	-
Deferred Revenue	520,473	903,633
Accrued Expenses	271,072	97,674
Net Cash Provided by Operating Activities	1,515,057	3,449,467
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(88,413)	(250,813)
Permanently Restricted Contributions Received	39,002	67,205
Purchase of Investments	(6,648,447)	(7,567,367)
Sale of Investments	4,264,960	3,604,508
Net Cash Used by Investing Activities	(2,432,898)	(4,146,467)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(917,841)	(697,000)
Cash and Cash Equivalents - Beginning	8,576,004	9,273,004
CASH AND CASH EQUIVALENTS - ENDING	\$ 7,658,163	\$ 8,576,004

See accompanying Notes to Consolidated Financial Statements.

THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The American Academy of Neurology (Academy) is a non-profit medical specialty society established to promote the best possible care for patients with neurological disorders. The Academy provides excellence in education through diverse programs in both clinical aspects of neurology and in basic neuroscience areas; supports the development of a practice environment that provides ethical, high quality care for patients with neurological disorders; and supports clinical and basic research.

The American Academy of Neurology Foundation (Foundation) is a non-profit corporation established to promote and administer charitable activities of scientific research and public education in the neurosciences.

AAN Enterprises, Inc. (Enterprises) is a for profit subsidiary established on February 29, 2000, to facilitate the development of new products and services for Academy members.

Basis of Consolidation

The consolidated financial statements include the accounts of The American Academy of Neurology and two controlled organizations, American Academy of Neurology Foundation and AAN Enterprises, Inc. All significant intercompany balances and transactions have been eliminated.

Financial Statement Presentation

Net assets, revenue, expenses, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Resources over which the Board of Directors has discretionary control. Designated amounts represent those revenues which the Board has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization.

The Organization has elected to present temporarily restricted contributions, which are fulfilled in the same time period, within the unrestricted net asset class.

**THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents and Concentrations

The Organization considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. The Organization has a sweep account that is invested nightly in U.S. Treasuries.

Receivables

Accounts and neurology royalty receivables are stated at net realizable value. Accordingly, the Organization accounts for uncollectible accounts by the reserve method, which is based on management's judgment considering historical information. Payment is required 30 days after receipt of the invoice. Accounts past due more than 90 days are individually analyzed for collectibility. When all collection efforts have been exhausted, the receivable is written off against the reserve. At December 31, 2004 and 2003, management recorded an allowance for doubtful accounts receivable of \$24,000.

The allowance for doubtful contributions receivable is \$75,000 at December 31, 2004 and 2003.

Inventory

Inventory consists of materials held for resale, and supplies and educational and promotional materials used in various Organization programs. Inventory is valued at the lower of cost, (determined on a first-in, first-out basis) or market.

Property and Equipment

Property and equipment are recorded at original cost. Additions, improvements or major renewals are capitalized. Any gains or losses on property and equipment retirements are reflected in the current year operations.

Depreciation is computed using the straight-line method at rates based on estimated service lives as follows:

Office Equipment	3 – 10 Years
Leasehold Improvements	10 Years or Life of Lease

Investments

Investments are recorded at market value and consist primarily of a management investment fund. Accordingly, unrealized gains and losses are recognized in the statement of activity as unrealized gains and losses. Realized gains and losses are determined using the specific identification method.

Grants Payable

Grants payable consist of awards and grants approved for various research projects and fellowships.

**THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amounts Held for Others

Amounts held for others consist of projects in which the Foundation acts as the agent on behalf of this program. The Foundation's responsibilities are to collect and disburse funds, for which the Foundation receives a nominal fee.

Membership Dues

Membership dues are recognized as revenue over the period to which the dues relate. Member dues represent services rendered on a calendar year basis. Dues collected in advance are recorded as deferred until they are earned.

Grants and Contributions

Grants and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional.

Grants and contributions that are restricted by the donor are reported as increases in unrestricted net assets only if the restrictions expire during the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are released to unrestricted net assets.

Allocation of Expenses

The Organization's costs of providing its various services have been classified on a functional basis in the statements of activity. Accordingly, certain costs have been allocated among the program and support services benefited. Expenses are allocated based on management's best estimates unless a direct relationship exists between the expense and a particular functional category.

Tax Exempt Status

The Academy and the Foundation are organized and operate on a nonprofit basis and have been granted tax exempt status by the Internal Revenue Service under Section 501(c)(3). They are classified as organizations which are not private foundations under the Internal Revenue Code and charitable contributions by donors are tax deductible. The Academy is subject to unrelated business income taxes under the Internal Revenue Code for federal and state tax purposes.

AAN Enterprises, Inc. is a for profit corporation and subject to taxes on all net income.

The Organization provides for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. In accordance with SFAS No. 109, the asset and liability approach is used to determine deferred income taxes. The asset and liability approach requires recognition of deferred tax liabilities and assets for the expected future consequences of temporary differences between the financial reporting basis and the tax basis of assets and liabilities. A valuation allowance is provided when it is more likely than not that a deferred tax asset will not be realized.

**THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations

Financial instruments which potentially subject the Organization to concentrations of credit risk are principally cash investment and contributions receivable. The Organization places its cash investment with a high quality financial institution. Although the balance exceeds the federally insured limit of \$100,000, the Organization has not experienced losses in these accounts and does not believe it is exposed to any significant credit risk.

The Organization also has a potential credit risk in contributions receivable since the balance is due from a limited number of individuals and corporate contributions.

The Organizations publications and product and services revenues are primarily from one publisher. The neurology royalty receivable is due from one corporation.

Accounting Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 2 CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31 are as follows:

	2004	2003
Less than One Year	\$ 782,131	\$ 805,349
One to Five Years	79,675	241,000
	<u>861,806</u>	<u>1,046,349</u>
Less: Discount to Present Value - 7%	(6,095)	(21,298)
Less: Allowance for Doubtful Accounts	(75,000)	(75,000)
Net Contributions Receivable	<u>\$ 780,711</u>	<u>\$ 950,051</u>

NOTE 3 INVESTMENTS

Investments are recorded at fair market value and consist of the following at December 31:

	2004	2003
Cash	\$ 10,011	\$ 18
Corporate Bond Funds	6,881,442	6,688,623
Small Capital Fund - Limited Partnership	1,602,030	955,140
Equity Funds	7,227,630	4,799,744
	<u>\$ 15,721,113</u>	<u>\$ 12,443,525</u>

THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE 3 INVESTMENTS (CONTINUED)

Investment income consists of the following:

	2004	2003
Interest and Dividends	\$ 445,336	\$ 471,614
Change in Unrealized Gain	664,892	1,434,098
Realized Gain on Sale of Investments	229,209	96,631
Total Investment Income	<u>\$ 1,339,437</u>	<u>\$ 2,002,343</u>
Operating Investment Income	\$ 200,569	\$ 288,685
Non-Operating Investment Income	1,138,868	1,713,658
Total Investment Income	<u>\$ 1,339,437</u>	<u>\$ 2,002,343</u>

The Organization maintains investment reserves in the Academy through long-term and intermediate investment holdings. These investments are separated from the Organization's general checking and savings accounts. All investment returns on these investments is considered non-operating. All investment income in the Foundation and Enterprises are considered available for current operations.

NOTE 4 GRANTS PAYABLE

Grants payable include the following at December 31:

	2004	2003
Total Grants Payable	\$ 1,238,598	\$ 100,000
Discount to Present Value	(48,767)	-
Net Grants Payable	1,189,831	100,000
Current Portion	(598,439)	(100,000)
Long-Term Portion of Grants Payable	<u>\$ 591,392</u>	<u>\$ -</u>
Amounts Due:		
One Year or Less	\$ 598,439	\$ 100,000
One to Five Years	640,159	-
Total Grants Payable	<u>\$ 1,238,598</u>	<u>\$ 100,000</u>

Grants expected to be paid beyond one year are reflected at the present value of future cash flows using a discount rate of 7%.

**THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 5 DEFERRED REVENUE

Deferred revenue consists of the following at December 31:

	<u>2004</u>	<u>2003</u>
Future Year Dues	\$ 2,315,685	\$ 2,191,018
Conference Revenues	1,964,242	1,613,697
Publication Bonus Amortized Over		
Contract Term	666,667	833,333
Other	466,557	254,630
	<u>\$ 5,413,151</u>	<u>\$ 4,892,678</u>

NOTE 6 LEASE COMMITMENT

On August 1, 1997, the Organization entered into a lease for office space with a ten year term and two additional renewal options of five years each. Both renewal options have been exercised and additional space has been added to the initial lease. Base rent expense is approximately \$38,000 per month through July 31, 2012. The Organization is also responsible for its share of the operating expenses of the building.

Total rent expense for the above lease for the years ended December 31, 2004 and 2003 totaled \$800,246 and \$764,577, respectively. Future minimum lease payments required under the non-cancelable operating lease (including estimated operating costs at the current rate) are as follows at December 31, 2004.

<u>Year</u>	<u>Amount</u>
2005	\$ 696,253
2006	696,253
2007	699,783
2008	704,725
2009	704,725
Thereafter	1,834,121
Total Minimum Lease Payments	<u>\$ 5,335,860</u>

NOTE 7 RETIREMENT PLAN

The Academy has a defined contribution retirement plan for its employees who meet certain age and service requirements. The Academy makes monthly contributions to the plan of 10.5% of the base salaries of qualifying participants. Pension expense was \$396,659 and \$363,437 for the years ended December 31, 2004 and 2003, respectively.

**THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 7 RETIREMENT PLAN (CONTINUED)

As of January 1, 2001, AAN Enterprises, Inc. established a 401(k) plan and a money purchase plan for its employees who meet certain age and service requirements. AAN Enterprises, Inc. makes monthly contributions to the money purchase plan of 10.5% of the gross salaries of qualifying participants. Retirement plan contributions were \$33,001 and \$22,254 for the years ended December 31, 2004 and 2003, respectively.

NOTE 8 INCOME TAXES

The Academy is subject to income tax on any management fees received from Enterprises' net of any related expenses. All Enterprises' income sources are subject to tax. Income tax benefit includes the following:

	<u>2004</u>	<u>2003</u>
Current:		
Federal	\$ -	\$ -
State Taxes	-	-
Total Current Income Tax	<u>-</u>	<u>-</u>
Deferred Income Expense (Benefit)	223,000	(155,000)
Total Income Benefit	<u>\$ 223,000</u>	<u>\$ (155,000)</u>

Deferred income tax consists of the following components as of December 31:

	<u>2004</u>	<u>2003</u>
Deferred Tax Assets:		
Net Operating Loss	\$ 366,000	\$ 586,000
Organizational Costs	-	1,000
Startup Costs	1,000	3,900
Accrued Vacation	5,900	5,000
Total	<u>\$ 372,900</u>	<u>\$ 595,900</u>

The deferred tax asset was calculated using a combined federal and state rate of 25% at December 31, 2004 and 2003. Net operating losses expire in the following years:

	<u>Amount</u>
December 31, 2022	\$ 606,606
December 31, 2023	627,170
Total	<u>\$ 1,233,776</u>

**THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 9 NET ASSETS

Unrestricted – Designated

The Foundation has the following Board designated net assets at December 31, 2004 and 2003, to be used for future year operations and public education and awards:

	<u>2004</u>	<u>2003</u>
Cornerstone Endowment	\$ 403,696	\$ 406,153
Corporate Roundtable	412,233	378,518
Silent Auction	90,794	4,671
Other	272,443	136,924
	<u>\$ 1,179,166</u>	<u>\$ 926,266</u>

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes as of December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Future Annual Meetings	\$ 747,313	\$ 586,000
QUINTEssentials	-	173,272
Sid Carter Award	51,335	51,335
A.B. Baker Award	43,352	45,893
Research Grants and Awards	1,533,757	2,108,681
Other	117,210	122,306
	<u>\$ 2,492,967</u>	<u>\$ 3,087,487</u>

Permanently Restricted

Permanently restricted net assets as of December 31 are as follows:

	<u>2004</u>	<u>2003</u>
Multiple Sclerosis Endowment	\$ 294,244	\$ 256,712
General Research Endowment	45,764	44,294
	<u>\$ 340,008</u>	<u>\$ 301,006</u>

NOTE 10 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	<u>2004</u>	<u>2003</u>
Time Restrictions Elapsed	\$ 1,544,204	\$ 1,778,000
Program Restrictions Met	1,780,889	489,022
	<u>\$ 3,325,093</u>	<u>\$ 2,267,022</u>

**THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 11 COMMITMENTS

As of December 31, 2004, the Organization had signed commitments with various hotels for the upcoming annual meetings. At December 31, 2004, the Organization was liable for approximately \$7,400,000, if the Organization cancels the agreements. The Organization has obtained insurance to cover the 2005 annual meeting.

NOTE 12 RELATED PARTY

United Council for Neurologic Subspecialties (Council) began operations May 1, 2003 as a non-profit which provides certification and accreditation with the goal of enhancing the quality of training for physicians in neurological subspecialties and improving the quality of patient care. The Council was formed by parent organizations of American Academy of Neurology, American Neurology Association, Association of University Professors of Neurology, Child Neurology Society, and Professors of Child Neurology. The Academy provided operating support to the Council in the amount of \$270,000 and \$145,000 for 2004 and 2003 respectively.

The Council receives services and facilities from the Academy for a management fee. Total amount of services provided to the Council from the Academy as of December 31, 2004 and 2003 was \$117,000 and \$71,000, respectively. As of December 31, 2004 and 2003, the Academy has a receivable in the amount of \$4,000 and \$15,000, respectively, from the Council, which is recorded in other receivables.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
The American Academy of Neurology and Affiliates
Saint Paul, Minnesota

Our report on the audits of the consolidated financial statements of The American Academy of Neurology and Affiliates for 2004 and 2003 appears on page 1. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 16 through 19 is presented for purposes of additional analysis on the consolidated financial statements rather than to present the financial position and changes in net assets of the individual organizations. Such information has been subjected to the procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
May 5, 2005

THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2004
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

ASSETS	American Academy of Neurology	American Academy of Neurology Foundation	AAN Enterprises, Inc.	Eliminations	Consolidated
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 5,746,499	\$ 1,562,157	\$ 349,507	\$ -	\$ 7,658,163
Neurology Royalty Receivable	3,163,016	-	-	-	3,163,016
Contributions Receivable	-	707,131	-	-	707,131
Accounts Receivable	381,773	-	1,646,294	-	2,028,067
Intercompany Receivable	219,464	45,779	-	(265,243)	-
Inventory	75,045	-	56,370	-	131,415
Other Receivables	11,790	-	-	-	11,790
Prepaid Expenses	547,242	5,951	20,431	-	573,624
Total Current Assets	<u>10,144,829</u>	<u>2,321,018</u>	<u>2,072,602</u>	<u>(265,243)</u>	<u>14,273,206</u>
PROPERTY AND EQUIPMENT					
Office Equipment	766,560	-	107,850	-	874,410
Leasehold Improvements	326,616	-	-	-	326,616
Total Property and Equipment	<u>1,093,176</u>	<u>-</u>	<u>107,850</u>	<u>-</u>	<u>1,201,026</u>
Less: Accumulated Depreciation	671,530	-	97,853	-	769,383
Net Property and Equipment	<u>421,646</u>	<u>-</u>	<u>9,997</u>	<u>-</u>	<u>431,643</u>
OTHER LONG-TERM ASSETS					
Investments	14,145,960	1,575,153	-	-	15,721,113
Investment in Subsidiary	1,582,686	-	-	(1,582,686)	-
Contributions Receivable	-	73,580	-	-	73,580
Deferred Income Tax	-	-	372,900	-	372,900
Total Other Long-Term Assets	<u>15,728,646</u>	<u>1,648,733</u>	<u>372,900</u>	<u>(1,582,686)</u>	<u>16,167,593</u>
Total Assets	<u>\$ 26,295,121</u>	<u>\$ 3,969,751</u>	<u>\$ 2,455,499</u>	<u>\$ (1,847,929)</u>	<u>\$ 30,872,442</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts Payable	\$ 660,916	\$ 57,128	\$ 145,148	\$ -	\$ 863,192
Grants Payable	120,000	478,439	-	-	598,439
Intercompany Payable	-	-	265,243	(265,243)	-
Amounts Held for Others	-	16,600	-	-	16,600
Deferred Revenue	4,765,156	-	147,995	-	4,913,151
Accrued Expenses	917,259	-	64,427	-	981,686
Total Current Liabilities	<u>6,463,331</u>	<u>552,167</u>	<u>622,813</u>	<u>(265,243)</u>	<u>7,373,068</u>
LONG-TERM LIABILITIES					
Deferred Revenue	250,000	-	250,000	-	500,000
Grants Payable	60,000	531,392	-	-	591,392
Total Long-Term Liabilities	<u>310,000</u>	<u>531,392</u>	<u>250,000</u>	<u>-</u>	<u>1,091,392</u>
Total Liabilities	<u>6,773,331</u>	<u>1,083,559</u>	<u>872,813</u>	<u>(265,243)</u>	<u>8,464,460</u>
NET ASSETS					
Unrestricted	19,303,145	271,862	-	-	19,575,007
Temporarily Restricted	218,645	2,274,322	-	-	2,492,967
Permanently Restricted	-	340,008	-	-	340,008
Stockholder's Equity	-	-	1,582,686	(1,582,686)	-
Total Net Assets	<u>19,521,790</u>	<u>2,886,192</u>	<u>1,582,686</u>	<u>(1,582,686)</u>	<u>22,407,982</u>
Total Liabilities and Net Assets	<u>\$ 26,295,121</u>	<u>\$ 3,969,751</u>	<u>\$ 2,455,499</u>	<u>\$ (1,847,929)</u>	<u>\$ 30,872,442</u>

THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITY
YEAR ENDED DECEMBER 31, 2004
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	American Academy of Neurology	American Academy of Neurology Foundation	AAN Enterprises, Inc.	Eliminations	Consolidated
SUPPORT					
Annual Meeting Grants and Contributions	\$ -	\$ 1,668,000	\$ -	\$ -	\$ 1,668,000
Project Grants and Contributions	-	2,098,422	-	(415,000)	1,683,422
Total Support	-	3,766,422	-	(415,000)	3,351,422
REVENUE					
Membership	5,416,046	-	-	-	5,416,046
Annual Meeting	5,790,788	-	-	-	5,790,788
Projects	58,250	-	-	-	58,250
Publications	6,194,881	-	-	-	6,194,881
Products and Services	327,055	-	3,150,811	-	3,477,866
Special Courses	1,378,992	-	-	-	1,378,992
Management Fees	1,466,503	-	211,943	(1,678,446)	-
Investment Income - Operating	54,089	142,026	4,454	-	200,569
Unrealized From AEI	666,229	-	-	(666,229)	-
Other	137,356	-	1,385	-	138,741
Total Revenue	21,490,189	142,026	3,368,593	(2,344,675)	22,656,133
Total Support and Revenue	21,490,189	3,908,448	3,368,593	(2,759,675)	26,007,555
EXPENSES					
Program Services:					
Membership	2,395,338	-	-	-	2,395,338
Annual Meeting	6,043,196	-	-	-	6,043,196
Projects	2,435,019	-	-	-	2,435,019
Publications	439,345	-	1,349,769	(25,000)	1,764,114
Committees	2,056,601	-	-	-	2,056,601
Products and Services	1,190,531	-	-	-	1,190,531
Special Courses	1,659,021	-	-	-	1,659,021
Grants and Awards	-	1,827,616	-	-	1,827,616
Total Program Services	16,219,051	1,827,616	1,349,769	(25,000)	19,371,436
Support Services:					
Member Development and Fundraising	34,002	306,284	-	-	340,286
General and Administrative	3,725,884	530,604	1,352,595	(2,068,446)	3,540,637
Total Support Services	3,759,886	836,888	1,352,595	(2,068,446)	3,880,923
Total Expenses	19,978,937	2,664,504	2,702,364	(2,093,446)	23,252,359
OPERATING CHANGE IN NET ASSETS	1,511,252	1,243,944	666,229	(666,229)	2,755,196
Non-Operating Investment Income	1,138,868	-	-	-	1,138,868
TOTAL CHANGE IN NET ASSETS	2,650,120	1,243,944	666,229	(666,229)	3,894,064
Commitments Transferred to the Academy	1,598,475	(1,598,475)	-	-	-
CHANGE IN NET ASSETS AND TRANSFERS	4,248,595	(354,531)	666,229	(666,229)	3,894,064
Net Assets - Beginning of Year	15,273,195	3,240,723	916,457	(916,457)	18,513,918
Contributed Capital	-	-	-	-	-
NET ASSETS - END OF YEAR	<u>\$ 19,521,790</u>	<u>\$ 2,886,192</u>	<u>\$ 1,582,686</u>	<u>\$ (1,582,686)</u>	<u>\$ 22,407,982</u>

THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2003
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

ASSETS	<u>American Academy of Neurology</u>	<u>American Academy of Neurology Foundation</u>	<u>AAN Enterprises, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 6,999,042	\$ 1,008,973	\$ 567,989	\$ -	\$ 8,576,004
Neurology Royalty Receivable	616,428	-	-	-	616,428
Contributions Receivable	-	730,349	-	-	730,349
Accounts Receivable	349,001	-	179,488	-	528,489
Intercompany Receivable	-	33,598	-	(33,598)	-
Inventory	15,700	-	152,779	-	168,479
Income Tax Receivable	-	-	-	-	-
Other Receivables	63,684	8,333	-	-	72,017
Prepaid Expenses	483,684	6,344	4,977	-	495,005
Total Current Assets	<u>8,527,539</u>	<u>1,787,597</u>	<u>905,233</u>	<u>(33,598)</u>	<u>11,186,771</u>
PROPERTY AND EQUIPMENT					
Office Equipment	678,147	-	107,850	-	785,997
Leasehold Improvements	326,616	-	-	-	326,616
Total Property and Equipment	<u>1,004,763</u>	<u>-</u>	<u>107,850</u>	<u>-</u>	<u>1,112,613</u>
Less: Accumulated Depreciation	600,072	-	87,852	-	687,924
Net Property and Equipment	<u>404,691</u>	<u>-</u>	<u>19,998</u>	<u>-</u>	<u>424,689</u>
OTHER LONG-TERM ASSETS					
Investments	11,007,092	1,436,433	-	-	12,443,525
Investment in Subsidiary	916,457	-	-	(916,457)	-
Contributions Receivable	-	219,702	-	-	219,702
Deferred Income Tax	-	-	595,900	-	595,900
Total Other Long-Term Assets	<u>11,923,549</u>	<u>1,656,135</u>	<u>595,900</u>	<u>(916,457)</u>	<u>13,259,127</u>
Total Assets	<u>\$ 20,855,779</u>	<u>\$ 3,443,732</u>	<u>\$ 1,521,131</u>	<u>\$ (950,055)</u>	<u>\$ 24,870,587</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts Payable	\$ 403,007	\$ 13,011	\$ 97,361	\$ -	\$ 513,379
Grants Payable	50,000	50,000	-	-	100,000
Intercompany Payable	26,155	-	7,443	(33,598)	-
Amounts Held for Others	-	139,998	-	-	139,998
Deferred Revenue	4,098,157	-	127,854	-	4,226,011
Accrued Expenses	671,931	-	38,683	-	710,614
Income Tax Payable	-	-	-	-	-
Total Current Liabilities	<u>5,249,250</u>	<u>203,009</u>	<u>271,341</u>	<u>(33,598)</u>	<u>5,690,002</u>
GRANTS PAYABLE, LONG TERM	<u>333,334</u>	<u>-</u>	<u>333,333</u>	<u>-</u>	<u>666,667</u>
Total Liabilities	<u>5,582,584</u>	<u>203,009</u>	<u>604,674</u>	<u>(33,598)</u>	<u>6,356,669</u>
NET ASSETS					
Unrestricted	14,872,888	252,537	-	-	15,125,425
Temporarily Restricted	400,307	2,687,180	-	-	3,087,487
Permanently Restricted	-	301,006	-	-	301,006
Stockholder's Equity	-	-	916,457	(916,457)	-
Total Net Assets	<u>15,273,195</u>	<u>3,240,723</u>	<u>916,457</u>	<u>(916,457)</u>	<u>18,513,918</u>
Total Liabilities and Net Assets	<u>\$ 20,855,779</u>	<u>\$ 3,443,732</u>	<u>\$ 1,521,131</u>	<u>\$ (950,055)</u>	<u>\$ 24,870,587</u>

THE AMERICAN ACADEMY OF NEUROLOGY AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITY
YEAR ENDED DECEMBER 31, 2003
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	American Academy of Neurology	American Academy of Neurology Foundation	AAN Enterprises, Inc.	Eliminations	Consolidated
SUPPORT					
Annual Meeting Grants and Contributions	\$ -	\$ 1,012,000	\$ -	\$ -	\$ 1,012,000
Project Grants and Contributions	5,100	1,639,032	-	-	1,644,132
Total Support	<u>5,100</u>	<u>2,651,032</u>	<u>-</u>	<u>-</u>	<u>2,656,132</u>
REVENUE					
Membership	4,897,973	-	-	-	4,897,973
Annual Meeting	4,660,142	-	-	-	4,660,142
Projects	4,000	-	-	-	4,000
Publications	4,111,158	-	-	-	4,111,158
Products and Services	316,374	-	1,332,654	-	1,649,028
Special Courses	1,250,392	-	-	-	1,250,392
Management Fees	986,669	-	242,770	(1,229,439)	-
Investment Income - Operating	48,584	238,055	2,046	-	288,685
Unrealized From AEI	(468,022)	-	-	468,022	-
Other	108,423	-	44	-	108,467
Total Revenue	<u>15,915,693</u>	<u>238,055</u>	<u>1,577,514</u>	<u>(761,417)</u>	<u>16,969,845</u>
Total Support and Revenue	15,920,793	2,889,087	1,577,514	(761,417)	19,625,977
EXPENSES					
Program Services:					
Membership	2,254,121	-	-	-	2,254,121
Annual Meeting	5,501,136	-	-	-	5,501,136
Projects	2,567,129	-	-	-	2,567,129
Publications	296,439	-	788,221	(70,000)	1,014,660
Committees	1,680,795	-	-	-	1,680,795
Products and Services	998,408	-	-	-	998,408
Special Courses	1,367,599	-	-	-	1,367,599
Grants and Awards	-	624,183	-	-	624,183
Total Program Services	<u>14,665,627</u>	<u>624,183</u>	<u>788,221</u>	<u>(70,000)</u>	<u>16,008,031</u>
Support Services:					
Member Development and Fundraising	31,801	272,467	-	-	304,268
General and Administrative	2,572,907	461,784	1,257,315	(1,159,439)	3,132,567
Total Support Services	<u>2,604,708</u>	<u>734,251</u>	<u>1,257,315</u>	<u>(1,159,439)</u>	<u>3,436,835</u>
Total Expenses	<u>17,270,335</u>	<u>1,358,434</u>	<u>2,045,536</u>	<u>(1,229,439)</u>	<u>19,444,866</u>
OPERATING CHANGE IN NET ASSETS	(1,349,542)	1,530,653	(468,022)	468,022	181,111
Non-Operating Investment Income	<u>1,713,658</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,713,658</u>
TOTAL CHANGE IN NET ASSETS	364,116	1,530,653	(468,022)	468,022	1,894,769
Commitments Transferred to the Academy	<u>1,887,827</u>	<u>(1,887,827)</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS AND TRANSFERS	2,251,943	(357,174)	(468,022)	468,022	1,894,769
Net Assets - Beginning of Year	13,021,252	3,597,897	826,879	(826,879)	16,619,149
Contributed Capital	<u>-</u>	<u>-</u>	<u>557,600</u>	<u>(557,600)</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 15,273,195</u>	<u>\$ 3,240,723</u>	<u>\$ 916,457</u>	<u>\$ (916,457)</u>	<u>\$ 18,513,918</u>