

**AMERICAN ACADEMY OF NEUROLOGY  
FOUNDATION**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2005 AND 2004**

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION  
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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
American Academy of Neurology Foundation  
Saint Paul, Minnesota

We have audited the accompanying balance sheets of the American Academy of Neurology Foundation as of December 31, 2005 and 2004, and the related statements of activity and cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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 that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Academy of Neurology Foundation 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.

*Larson, Allen, Weishair & Co., LLP*

**LARSON, ALLEN, WEISHAIR & CO., LLP**

Minneapolis, Minnesota  
April 13, 2006

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION  
BALANCE SHEETS  
DECEMBER 31, 2005 AND 2004**

<b>ASSETS</b>	2005	2004
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 972,809	\$ 1,562,157
Contributions Receivable, Net	613,393	707,131
Intercompany Receivables	-	45,779
Prepaid	29,383	5,951
Total Current Assets	1,615,585	2,321,018
<b>OTHER LONG-TERM ASSETS</b>		
Contributions Receivable, Net	195,865	73,580
Investments	1,843,086	1,575,153
Total Other Long-Term Assets	2,038,951	1,648,733
Total Assets	\$ 3,654,536	\$ 3,969,751
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 39,639	\$ 73,728
Grants Payable	708,658	478,439
Intercompany Payables	69,817	-
Total Current Liabilities	818,114	552,167
<b>LONG-TERM GRANTS PAYABLE</b>		
Total Liabilities	396,802	531,392
<b>NET ASSETS</b>		
Unrestricted	201,727	271,862
Temporarily Restricted - Foundation	1,790,134	1,335,949
Temporarily Restricted - Academy	95,000	938,373
Total Temporarily Restricted	1,885,134	2,274,322
Permanently Restricted	352,759	340,008
Total Net Assets	2,439,620	2,886,192
Total Liabilities and Net Assets	\$ 3,654,536	\$ 3,969,751

See accompanying Notes to Financial Statements.

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION  
STATEMENTS OF ACTIVITY  
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT</b>				
Contributions	\$ 1,161,471	\$ 1,956,773	\$ 12,751	\$ 3,130,995
Dues	252,493	-	-	252,493
Special Event Income	234,932	205,520	-	440,452
Special Event Direct Benefits	(109,709)	-	-	(109,709)
Net Contributions	<u>1,539,187</u>	<u>2,162,293</u>	<u>12,751</u>	<u>3,714,231</u>
<b>REVENUE</b>				
Investment Income	<u>101,868</u>	<u>6,376</u>	<u>-</u>	<u>108,244</u>
Total Revenue and Support	1,641,055	2,168,669	12,751	3,822,475
Net Assets Released from Restrictions	<u>542,197</u>	<u>(542,197)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	2,183,252	1,626,472	12,751	3,822,475
<b>EXPENSE</b>				
Program Service - Grants and Awards	1,482,661	-	-	1,482,661
Support Services:				
General and Administrative	423,906	-	-	423,906
Fundraising	<u>346,820</u>	<u>-</u>	<u>-</u>	<u>346,820</u>
Total Support Services	<u>770,726</u>	<u>-</u>	<u>-</u>	<u>770,726</u>
Total Expense	<u>2,253,387</u>	<u>-</u>	<u>-</u>	<u>2,253,387</u>
<b>CHANGE IN NET ASSETS</b>	(70,135)	1,626,472	12,751	1,569,088
Commitments Transferred to the Academy	<u>-</u>	<u>(2,015,660)</u>	<u>-</u>	<u>(2,015,660)</u>
<b>CHANGE IN NET ASSETS AND TRANSFERS</b>	(70,135)	(389,188)	12,751	(446,572)
Net Assets Beginning of Year	<u>271,862</u>	<u>2,274,322</u>	<u>340,008</u>	<u>2,886,192</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 201,727</u>	<u>\$ 1,885,134</u>	<u>\$ 352,759</u>	<u>\$ 2,439,620</u>

See accompanying Notes to Financial Statements.

## 2004

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 578,687	\$ 2,720,610	\$ 39,002	\$ 3,338,299
342,500	-	-	342,500
115,815	-	-	115,815
(30,192)	-	-	(30,192)
<u>1,006,810</u>	<u>2,720,610</u>	<u>39,002</u>	<u>3,766,422</u>
<u>136,246</u>	<u>5,780</u>	<u>-</u>	<u>142,026</u>
1,143,056	2,726,390	39,002	3,908,448
<u>1,540,773</u>	<u>(1,540,773)</u>	<u>-</u>	<u>-</u>
2,683,829	1,185,617	39,002	3,908,448
1,827,616	-	-	1,827,616
530,604	-	-	530,604
306,284	-	-	306,284
<u>836,888</u>	<u>-</u>	<u>-</u>	<u>836,888</u>
<u>2,664,504</u>	<u>-</u>	<u>-</u>	<u>2,664,504</u>
19,325	1,185,617	39,002	1,243,944
<u>-</u>	<u>(1,598,475)</u>	<u>-</u>	<u>(1,598,475)</u>
19,325	(412,858)	39,002	(354,531)
<u>252,537</u>	<u>2,687,180</u>	<u>301,006</u>	<u>3,240,723</u>
<u>\$ 271,862</u>	<u>\$ 2,274,322</u>	<u>\$ 340,008</u>	<u>\$ 2,886,192</u>

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 1,569,088	\$ 1,243,944
Permanently Restricted Contributions Received	(12,751)	(39,002)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Donated Investments	(1,056)	(11,907)
Unrealized Gain on Investments	(66,877)	(126,813)
(Increase) Decrease in Assets:		
Contributions Receivable	(28,547)	169,340
Other Receivables	-	8,333
Intercompany Receivables	45,779	(12,181)
Prepaid Expenses	(23,432)	393
Increase (Decrease) in Liabilities:		
Accounts Payable	(34,089)	44,117
Amounts Held for Others	-	(123,398)
Grants Payable	95,629	959,831
Intercompany Payables	69,817	-
Net Cash Provided by Operating Activities	1,613,561	2,112,657
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	(200,000)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently Restricted Contributions Received	12,751	39,002
Contributions Transferred to the Academy	(2,015,660)	(1,598,475)
Net Cash Used by Financing Activities	(2,002,909)	(1,559,473)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(589,348)	553,184
Cash and Equivalents - Beginning of Year	1,562,157	1,008,973
<b>CASH AND EQUIVALENTS - END OF YEAR</b>	\$ 972,809	\$ 1,562,157

See accompanying Notes to Financial Statements.

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

**Nature of Organization**

The American Academy of Neurology Foundation (the Foundation) is a non-profit corporation established to promote and administer charitable activities of scientific research and education in the neurosciences. The Organization is related to the American Academy of Neurology (the Academy) in that the Academy appoints a majority of the sixteen board members of the Foundation.

**Financial Statement Presentation**

Net assets, revenue, expense, 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 donor imposed restrictions that they be maintained permanently by the Organization. The donors of these resources permitted the Organization to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

**Cash and Cash Equivalents**

The Foundation considers all money market funds and investments with original maturities of three months or less to be cash and cash equivalents.

**Investments**

Investments are recorded at fair market value and consist of mutual funds held through the Academy's portfolio. The investments include equity, bond and hedge funds. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. In addition, the Organization's investments include limited partnerships that are diversified funds of hedge funds, which are recorded at the fair value of the underlying assets in the limited partnerships.

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)**

**Contributions**

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

Grant contributions for the Academy are raised by the Foundation. In 2004, when the contribution payments were received 87% was remitted to the Academy and the Foundation retains 13% for associated fundraising and administrative efforts. In 2005, the Foundation remitted 100% of the pledges to the Academy and in return the Academy increased its annual unrestricted contributions made to the Foundation (Note 5).

The amounts held for the Academy at December 31, 2005 and 2004 represent the Academy's portion of cash and pledges receivable.

**Contributions Receivable**

Contributions receivable are stated at net realizable value. Accordingly, the Foundation accounts for uncollectible accounts by the reserve method based on historical information and management judgment.

**Grants Payable**

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

**Tax Exempt Status**

The Foundation operates on a nonprofit basis and has been granted tax-exempt status by the Internal Revenue Service under Section 501(c)(3). The Foundation is classified as an Organization which is not a private foundation under the Internal Revenue Code and charitable contributions by donors are tax deductible.

**Accounting Estimates and Assumptions**

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 disclosures 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.

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)**

**Functional Allocation of Expenses**

Expenses are allocated directly to programs and support services based on the best estimates of management.

**Credit Risk**

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

**Reclassifications**

Certain reclassifications have been made to the December 31, 2004 balances in order to present the financial statements in a comparable manner.

**NOTE 2 CONTRIBUTIONS RECEIVABLE**

Contributions receivable include the following at December 31:

	2005	2004
Total Contributions Receivable	\$ 884,577	\$ 861,806
Allowance for Doubtful Accounts	(55,000)	(75,000)
Discount to Present Value	(20,319)	(6,095)
Net Contributions Receivable	809,258	780,711
Current Portion	(613,393)	(707,131)
Long-Term Portion	<u>\$ 195,865</u>	<u>\$ 73,580</u>
Amounts Due:		
One Year or Less	\$ 668,393	\$ 782,131
One to Five Years	216,184	79,675
Total Contributions Receivable	<u>\$ 884,577</u>	<u>\$ 861,806</u>

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

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 3 GRANTS PAYABLE**

Grants payable include the following at December 31:

	2005	2004
Total Grants Payable	\$ 1,137,097	\$ 1,058,598
Discount to Present Value	<u>(31,637)</u>	<u>(48,767)</u>
Net Grants Payable	1,105,460	1,009,831
Current Portion	<u>(708,658)</u>	<u>(478,439)</u>
Long-Term Portion of Grants Payable	<u>\$ 396,802</u>	<u>\$ 531,392</u>
Amounts Due:		
One Year or Less	\$ 708,658	\$ 478,439
One to Five Years	<u>428,439</u>	<u>580,159</u>
Total Grants Payable	<u>\$ 1,137,097</u>	<u>\$ 1,058,598</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%.

**NOTE 4 SUPPORT SERVICE EXPENSE RATIO**

Total expenses allocated to support services as a percentage of funds raised for the years ended December 31 are as follows:

	2005		2004	
	Amount	Percent	Amount	Percent
Support Service Expense:				
General and Administrative	\$ 423,906	11 %	\$ 530,604	14 %
Fundraising	<u>346,820</u>	<u>9</u>	<u>306,284</u>	<u>8</u>
Total Support Services	<u>\$ 770,726</u>	<u>20 %</u>	<u>\$ 836,888</u>	<u>22 %</u>
 Total Funds Raised	 <u>\$ 3,714,231</u>	 <u>100 %</u>	 <u>\$ 3,766,422</u>	 <u>100 %</u>

**NOTE 5 RELATED PARTY**

Fundraising, administrative, and program activities are conducted by the employees of the Academy. The Foundation pays all direct costs relating to employees and pays a management fee for services and for the utilization of space and related costs. Management fee expense was \$347,214 and \$292,850 for the years ended December 31, 2005 and 2004, respectively.

For the years ended December 31, 2005 and 2004, the Academy contributed \$816,000 and \$325,000, respectively, to support the Foundation's unrestricted activities and also contributed an additional \$88,493 and \$90,000 for restricted projects in 2005 and 2004, respectively.

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 6 NET ASSETS**

**Unrestricted – Designated**

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

	2005	2004
Cornerstone Endowment	\$ -	\$ 403,696
Corporate Roundtable	-	412,233
Clinical - Research Training Fellowship	-	89,066
Other	-	183,377
Silent Auction	-	90,794
	<u>\$ -</u>	<u>\$ 1,179,166</u>

**Temporarily Restricted**

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

	2005	2004
Funds Held for Academy Projects	\$ 95,000	\$ 938,373
Education, Research, and Award Funds	1,299,897	1,218,150
Special Events Contribution	205,520	-
Potamkin Prize	284,717	117,799
Total	<u>\$ 1,885,134</u>	<u>\$ 2,274,322</u>

**Permanently Restricted**

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

	2005	2004
Multiple Sclerosis Endowment	\$ 305,917	\$ 294,244
General Research Endowment	46,842	45,764
	<u>\$ 352,759</u>	<u>\$ 340,008</u>

**NOTE 7 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:

	2005	2004
Education, Research and Award Funds	\$ 535,863	\$ 1,292,063
Foundation Administrative Fees for Academy Projects	6,335	248,710
	<u>\$ 542,197</u>	<u>\$ 1,540,773</u>