

**AMERICAN ACADEMY OF NEUROLOGY
FOUNDATION**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

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

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
BALANCE SHEETS	2
STATEMENTS OF ACTIVITY	3
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6

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, 2004 and 2003, 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, 2004 and 2003, 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
May 5, 2005

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION
BALANCE SHEETS
DECEMBER 31, 2004 AND 2003**

	2004	2003
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,562,157	\$ 1,008,973
Contributions Receivable, Current	707,131	730,349
Intercompany Receivables	45,779	33,598
Other Receivables	-	8,333
Prepaid	5,951	6,344
Total Current Assets	2,321,018	1,787,597
CONTRIBUTIONS RECEIVABLE, LONG-TERM	73,580	219,702
INVESTMENTS	1,575,153	1,436,433
Total Assets	\$ 3,969,751	\$ 3,443,732
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 57,128	\$ 13,011
Grants Payable	478,439	50,000
Amounts Held for Others	16,600	139,998
Total Current Liabilities	552,167	203,009
GRANTS PAYABLE, LONG-TERM	531,392	-
Total Liabilities	1,083,559	203,009
NET ASSETS		
Unrestricted	271,862	252,537
Temporarily Restricted - Foundation	1,335,949	1,723,515
Temporarily Restricted - Academy	938,373	963,665
Total Temporarily Restricted	2,274,322	2,687,180
Permanently Restricted	340,008	301,006
Total Net Assets	2,886,192	3,240,723
Total Liabilities and Net Assets	\$ 3,969,751	\$ 3,443,732

See accompanying Notes to Financial Statements.

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION
STATEMENTS OF ACTIVITY
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT				
Contributions	\$ 578,687	\$ 2,720,610	\$ 39,002	\$ 3,338,299
Dues	342,500	-	-	342,500
Special Event Income	115,815	-	-	115,815
Special Event Direct Benefits	(30,192)	-	-	(30,192)
Net Contributions	<u>1,006,810</u>	<u>2,720,610</u>	<u>39,002</u>	<u>3,766,422</u>
REVENUE				
Investment Income	<u>136,246</u>	<u>5,780</u>	<u>-</u>	<u>142,026</u>
Total Support and Revenue	1,143,056	2,726,390	39,002	3,908,448
Net Assets Released from Restrictions	<u>1,540,773</u>	<u>(1,540,773)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	2,683,829	1,185,617	39,002	3,908,448
EXPENSE				
Program Service - Grants and Awards	1,827,616	-	-	1,827,616
Support Services:				
General and Administrative	530,604	-	-	530,604
Fundraising	306,284	-	-	306,284
Total Support Services	<u>836,888</u>	<u>-</u>	<u>-</u>	<u>836,888</u>
Total Expense	<u>2,664,504</u>	<u>-</u>	<u>-</u>	<u>2,664,504</u>
CHANGE IN NET ASSETS	19,325	1,185,617	39,002	1,243,944
Commitments Transferred to the Academy	<u>-</u>	<u>(1,598,475)</u>	<u>-</u>	<u>(1,598,475)</u>
CHANGE IN NET ASSETS AND TRANSFERS	19,325	(412,858)	39,002	(354,531)
Net Assets - Beginning of Year	<u>252,537</u>	<u>2,687,180</u>	<u>301,006</u>	<u>3,240,723</u>
NET ASSETS - END OF YEAR	<u>\$ 271,862</u>	<u>\$ 2,274,322</u>	<u>\$ 340,008</u>	<u>\$ 2,886,192</u>

See accompanying Notes to Financial Statements.

2003			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 117,961	\$ 1,956,208	\$ 68,656	\$ 2,142,825
412,500	-	-	412,500
119,300	-	-	119,300
(23,593)	-	-	(23,593)
<u>626,168</u>	<u>1,956,208</u>	<u>68,656</u>	<u>2,651,032</u>
<u>230,370</u>	<u>7,685</u>	<u>-</u>	<u>238,055</u>
856,538	1,963,893	68,656	2,889,087
<u>345,344</u>	<u>(345,344)</u>	<u>-</u>	<u>-</u>
1,201,882	1,618,549	68,656	2,889,087
624,183	-	-	624,183
461,784	-	-	461,784
272,467	-	-	272,467
<u>734,251</u>	<u>-</u>	<u>-</u>	<u>734,251</u>
<u>1,358,434</u>	<u>-</u>	<u>-</u>	<u>1,358,434</u>
(156,552)	1,618,549	68,656	1,530,653
<u>-</u>	<u>(1,887,827)</u>	<u>-</u>	<u>(1,887,827)</u>
(156,552)	(269,279)	68,656	(357,174)
<u>409,088</u>	<u>2,956,459</u>	<u>232,350</u>	<u>3,597,897</u>
<u>\$ 252,537</u>	<u>\$ 2,687,180</u>	<u>\$ 301,006</u>	<u>\$ 3,240,723</u>

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

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,243,944	\$ 1,530,653
Permanently Restricted Contributions Received	(39,002)	(67,205)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Donated Investments	(11,907)	(6,421)
Funds Transferred to Investments	-	(1,150,000)
Unrealized Gain on Investments	(126,813)	(225,781)
(Increase) Decrease in Assets:		
Contributions Receivable	169,340	407,200
Other Receivables	8,333	(8,333)
Intercompany Receivables	(12,181)	(33,506)
Prepaid Expenses	393	(5,243)
Increase (Decrease) in Liabilities:		
Accounts Payable	44,117	(57,138)
Amounts Held for Others	(123,398)	-
Grants Payable	959,831	(105,000)
Net Cash Provided by Operating Activities	2,112,657	279,226
 CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently Restricted Contributions Received	39,002	67,205
Contributions Transferred to the Academy	(1,598,475)	(1,887,827)
Net Cash Used by Financing Activities	(1,559,473)	(1,820,622)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	553,184	(1,541,396)
Cash and Cash Equivalents - Beginning of Year	1,008,973	2,550,369
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,562,157	\$ 1,008,973

See accompanying Notes to Financial Statements.

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

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.

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

Cash and Cash Equivalents

The Organization 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 American Academy of Neurology's portfolio. The investments include both equity funds and a bond fund.

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

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. When the contribution payments are received 87% is remitted to the Academy and the Foundation retains 13% for associated fundraising and administrative efforts. The amounts held for the Academy at December 31, 2004 and 2003, 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. At December 31, 2004 and 2003, allowance for doubtful accounts is \$75,000.

Grants Payable

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

Amounts Held for Others

Amounts held for others consists of projects in which the Foundation acts as the fiscal agent on behalf of the program. The Foundation's responsibilities are to collect and disburse funds. The Foundation receives an administrative fee of ten percent of the expenditures made on behalf of the International Headache Guidelines Project.

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, 2004 AND 2003**

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.

NOTE 2 CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following at December 31:

	<u>2004</u>	<u>2003</u>
Total Contributions Receivable	\$ 861,806	\$ 1,046,349
Allowance for Doubtful Accounts	(75,000)	(75,000)
Discount to Present Value	(6,095)	(21,298)
Net Contributions Receivable	<u>780,711</u>	<u>950,051</u>
Current Portion	(707,131)	(730,349)
Long-Term Portion	<u>\$ 73,580</u>	<u>\$ 219,702</u>
Amounts Due:		
One Year or Less	\$ 782,131	\$ 805,349
One to Five Years	79,675	241,000
Total Contributions Receivable	<u>\$ 861,806</u>	<u>\$ 1,046,349</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, 2004 AND 2003**

NOTE 3 GRANTS PAYABLE

Grants payable include the following at December 31:

	2004	2003
Total Grants Payable	\$ 1,058,598	\$ 50,000
Discount to Present Value	<u>(48,767)</u>	<u>-</u>
Net Grants Payable	1,009,831	50,000
Current Portion	<u>(478,439)</u>	<u>(50,000)</u>
Long-Term Portion of Grants Payable	<u>\$ 531,392</u>	<u>\$ -</u>
Amounts Due:		
One Year or Less	\$ 478,439	\$ 50,000
One to Five Years	<u>580,159</u>	<u>-</u>
Total Grants Payable	<u>\$ 1,058,598</u>	<u>\$ 50,000</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%.

NOTE 4 SUPPORT SERVICE EXPENSE RATIO

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

	2004		2003	
	Amount	Percent	Amount	Percent
Support Service Expense:				
General and Administrative	\$ 530,604	14 %	\$ 461,784	17 %
Fundraising	<u>306,284</u>	<u>8</u>	<u>272,467</u>	<u>10</u>
Total Support Services	<u>\$ 836,888</u>	<u>22 %</u>	<u>\$ 734,251</u>	<u>27 %</u>
 Total Funds Raised	 <u>\$ 3,766,422</u>	 <u>100 %</u>	 <u>\$ 2,651,032</u>	 <u>100 %</u>

NOTE 5 RELATED PARTY

Fundraising, administrative, and program activities are conducted by the employees of the American Academy of Neurology. 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 \$292,850 and \$283,650 for the years ended December 31, 2004 and 2003, respectively.

For the year ended December 31, 2004, the American Academy of Neurology contributed \$325,000 to support the Foundation's unrestricted activities and also contributed an additional \$90,000 for a restricted project.

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

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:

	2004	2003
Cornerstone Endowment	\$ 403,696	\$ 406,153
Corporate Roundtable	412,233	379,280
Clinical - Research Training Fellowship	89,066	91,273
Other	183,377	44,890
Silent Auction	90,794	4,671
	<u>\$ 1,179,166</u>	<u>\$ 926,267</u>

Temporarily Restricted

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

	2004	2003
Funds Held for Academy Projects	\$ 938,373	\$ 963,665
Education, Research, and Award Funds	1,218,150	1,512,256
Potamkin Prize	117,799	211,259
Total	<u>\$ 2,274,322</u>	<u>\$ 2,687,180</u>

Permanently Restricted

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

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

	2004	2003
Education, Research and Award Funds	\$ 1,292,063	\$ 115,832
Foundation Administrative Fees for Academy Projects	248,710	229,512
	<u>\$ 1,540,773</u>	<u>\$ 345,344</u>