

**AMERICAN ACADEMY OF NEUROLOGY
FOUNDATION**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2003 AND 2002

**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, 2003 and 2002, 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, 2003 and 2002, 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
March 3, 2004

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION
BALANCE SHEETS
DECEMBER 31, 2003 AND 2002**

	2003	2002
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,008,973	\$ 2,550,369
Contributions Receivable, Current	730,349	1,035,981
Intercompany Receivables	33,598	92
Other Receivables	8,333	-
Prepaid	6,344	1,101
Total Current Assets	1,787,597	3,587,543
CONTRIBUTIONS RECEIVABLE, LONG-TERM	219,702	321,270
INVESTMENTS	1,436,433	54,231
Total Assets	\$ 3,443,732	\$ 3,963,044
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 13,011	\$ 70,149
Grants Payable	50,000	155,000
Amounts Held for Others	139,998	139,998
Payable to Academy	-	-
Total Current Liabilities	203,009	365,147
GRANTS PAYABLE, LONG-TERM	-	-
Total Liabilities	203,009	365,147
NET ASSETS		
Unrestricted	252,537	409,088
Temporarily Restricted - Foundation	1,723,515	1,439,459
Temporarily Restricted - Academy	963,665	1,517,000
Total Temporarily Restricted	2,687,180	2,956,459
Permanently Restricted	301,006	232,350
Total Net Assets	3,240,723	3,597,897
Total Liabilities and Net Assets	\$ 3,443,732	\$ 3,963,044

See accompanying Notes to Financial Statements.

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION
STATEMENTS OF ACTIVITY
YEARS ENDED DECEMBER 31, 2003 AND 2002**

	2003			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT				
Contributions	\$ 117,961	\$ 1,956,208	\$ 68,656	\$ 2,142,825
Dues	412,500	-	-	412,500
Special Event Income	119,300	-	-	119,300
Special Event Direct Benefits	(23,593)	-	-	(23,593)
Net Support	<u>626,168</u>	<u>1,956,208</u>	<u>68,656</u>	<u>2,651,032</u>
REVENUE				
Investment Income	<u>230,370</u>	<u>7,685</u>	<u>-</u>	<u>238,055</u>
Total Support and Revenue	856,538	1,963,893	68,656	2,889,087
Net Assets Released from Restrictions	<u>345,344</u>	<u>(345,344)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	1,201,882	1,618,549	68,656	2,889,087
EXPENSE				
Program Service - Grants and Awards	624,183	-	-	624,183
Support Services:				
General and Administrative	461,784	-	-	461,784
Fundraising	<u>272,467</u>	<u>-</u>	<u>-</u>	<u>272,467</u>
Total Support Services	<u>734,251</u>	<u>-</u>	<u>-</u>	<u>734,251</u>
Total Expense	<u>1,358,434</u>	<u>-</u>	<u>-</u>	<u>1,358,434</u>
CHANGE IN NET ASSETS	(156,552)	1,618,549	68,656	1,530,653
Commitments Transferred to the Academy	<u>-</u>	<u>(1,887,827)</u>	<u>-</u>	<u>(1,887,827)</u>
CHANGE IN NET ASSETS AND TRANSFERS	(156,552)	(269,279)	68,656	(357,174)
Net Assets - Beginning of Year	<u>409,088</u>	<u>2,956,459</u>	<u>232,350</u>	<u>3,597,897</u>
NET ASSETS - END OF YEAR	<u>\$ 252,537</u>	<u>\$ 2,687,180</u>	<u>\$ 301,006</u>	<u>\$ 3,240,723</u>

See accompanying Notes to Financial Statements.

2002

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 130,148	\$ 2,688,035	\$ 232,350	\$ 3,050,533
382,500	-	-	382,500
109,229	-	-	109,229
(7,838)	-	-	(7,838)
<u>614,039</u>	<u>2,688,035</u>	<u>232,350</u>	<u>3,534,424</u>
<u>27,059</u>	<u>5,319</u>	<u>-</u>	<u>32,378</u>
641,098	2,693,354	232,350	3,566,802
<u>405,259</u>	<u>(405,259)</u>	<u>-</u>	<u>-</u>
1,046,357	2,288,095	232,350	3,566,802
623,623	-	-	623,623
466,369	-	-	466,369
260,404	-	-	260,404
<u>726,773</u>	<u>-</u>	<u>-</u>	<u>726,773</u>
<u>1,350,396</u>	<u>-</u>	<u>-</u>	<u>1,350,396</u>
(304,039)	2,288,095	232,350	2,216,406
<u>(24,441)</u>	<u>(2,202,359)</u>	<u>-</u>	<u>(2,226,800)</u>
(328,480)	85,736	232,350	(10,394)
<u>737,568</u>	<u>2,870,723</u>	<u>-</u>	<u>3,608,291</u>
<u>\$ 409,088</u>	<u>\$ 2,956,459</u>	<u>\$ 232,350</u>	<u>\$ 3,597,897</u>

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 AND 2002**

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,530,653	\$ 2,216,406
Permanently Restricted Contributions Received	(67,205)	(25,000)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Donated Investments	(6,421)	(627)
Funds Transferred to Investments	(1,150,000)	-
Unrealized (Gain) Loss on Investments	(225,781)	5,102
(Increase) Decrease in Assets:		
Contributions Receivable	407,200	533,654
Other Receivables	(8,333)	-
Intercompany Receivables	(33,506)	(92)
Prepaid Expenses	(5,243)	(517)
Increase (Decrease) in Liabilities:		
Accounts Payable	(57,138)	40,414
Grants Payable	(105,000)	(43,292)
Payable to Academy	-	(553,632)
Net Cash Provided by Operating Activities	279,226	2,172,416
 CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently Restricted Contributions Received	67,205	25,000
Contributions Transferred to the Academy	(1,887,827)	(2,226,800)
Net Cash Used by Financing Activities	(1,820,622)	(2,201,800)
 NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,541,396)	(29,384)
 Cash and Cash Equivalents - Beginning of Year	2,550,369	2,579,753
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,008,973	\$ 2,550,369

See accompanying Notes to Financial Statements.

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

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.

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

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, 2003 and 2002, 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, 2003 and 2002, allowance for doubtful accounts is \$75,000.

Amounts Held for Others

Amounts held for others consists of two 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, 2003 AND 2002**

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.

NOTE 2 CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following at December 31, 2003 and 2002:

	2003	2002
Total Contributions Receivable	\$ 1,046,349	\$ 1,471,531
Allowance for Doubtful Accounts	(75,000)	(75,000)
Discount to Present Value	(21,298)	(39,280)
Net Contributions Receivable	<u>950,051</u>	<u>1,357,251</u>
Current Portion	(730,349)	(1,035,981)
Long-Term Portion	<u>\$ 219,702</u>	<u>\$ 321,270</u>
Amounts Due:		
One Year or Less	\$ 805,349	\$ 1,110,981
One to Five Years	241,000	360,550
Total Contributions Receivable	<u>\$ 1,046,349</u>	<u>\$ 1,471,531</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, 2003 AND 2002**

NOTE 3 SUPPORT SERVICE EXPENSE RATIO

Total expenses allocated to support services as a percentage of funds raised for the years ended December 31, 2003 and 2002:

	2003		2002	
	Amount	Percent	Amount	Percent
Support Service Expense:				
General and Administrative	\$ 461,784	17 %	\$ 466,369	13 %
Fundraising	272,467	10	260,404	7
Total Support Services	<u>\$ 734,251</u>	<u>27 %</u>	<u>\$ 726,773</u>	<u>20 %</u>
 Total Funds Raised	 <u>\$ 2,651,032</u>	 <u>100 %</u>	 <u>\$ 3,534,424</u>	 <u>100 %</u>

NOTE 4 RELATED PARTY – MANAGEMENT FEE

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 \$286,417 and \$283,650 for the years ended December 31, 2003 and 2002, respectively.

NOTE 5 NET ASSETS

Unrestricted – Designated

The Foundation has the following Board designated net assets at December 31, 2003 and 2002 to be used for future year operations and public education and awards:

	2003	2002
Cornerstone Endowment	\$ 406,153	\$ 418,874
Corporate Roundtable	379,280	375,315
Clinical - Research Training Fellowship	91,273	16,967
Other	44,890	-
Silent Auction	4,671	22,744
	<u>\$ 926,267</u>	<u>\$ 833,900</u>

Temporarily Restricted

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

	2003	2002
Funds Held for Academy Projects	\$ 963,665	\$ 1,517,000
Education, Research, and Award Funds	1,512,256	1,140,797
Potamkin Prize	211,259	298,662
Total	<u>\$ 2,687,180</u>	<u>\$ 2,956,459</u>

**AMERICAN ACADEMY OF NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

NOTE 5 NET ASSETS (CONTINUED)

Permanently Restricted

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

	2003	2002
Multiple Sclerosis Endowment	\$ 256,712	\$ 232,350
General Research Endowment	44,294	-
	\$ 301,006	\$ 232,350

NOTE 6 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:

	2003	2002
Education, Research and Award Funds	\$ 115,832	\$ 68,664
Foundation Administrative Fees for Academy Projects	229,512	336,595
	\$ 345,344	\$ 405,259