

McGladrey & Pullen

Certified Public Accountants

The American Academy of Neurology and Affiliates

Consolidated Financial Statements
December 31, 2006

Contents

Independent Auditor's Report on the Financial Statements	1
Financial Statements	
Consolidated statements of financial position	2
Consolidated statements of activity	3 - 4
Consolidated statements of cash flows	5
Notes to consolidated financial statements	6 - 13
Independent Auditor's Report on the Supplementary Information	14
Supplementary Information	
Consolidating statement of financial position — December 31, 2006	15
Consolidating statement of activity — December 31, 2006	16
Consolidating statement of financial position — December 31, 2005	17
Consolidating statement of activity — December 31, 2005	18

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
The American Academy of Neurology and Affiliates
St. Paul, Minnesota

We have audited the accompanying consolidated statement of financial position of The American Academy of Neurology and Affiliates (American Academy of Neurology Foundation and American Academy of Neurology Enterprises, Inc.) as of December 31, 2006, and the related consolidated statements of activity and cash flows for the year 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 audit. The consolidated financial statements of The American Academy of Neurology and Affiliates for the year ended December 31, 2005, were audited by other auditors, whose report dated April 13, 2006, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2006 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The American Academy of Neurology and Affiliates as of December 31, 2006, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Minneapolis, Minnesota
May 17, 2007

The American Academy of Neurology and Affiliates

Consolidated Statements of Financial Position
December 31, 2006 and 2005

Assets	2006	2005
Current Assets		
Cash and cash equivalents	\$ 9,426,678	\$ 11,313,767
Royalty receivable	1,290,610	155,025
Contributions receivable (Note 2)	811,302	613,393
Accounts receivable, net	1,719,113	2,151,697
Inventory	169,943	145,316
Other receivables	213,065	384,131
Prepaid expenses and other	489,490	538,451
Deferred income tax (Note 8)	68,200	-
Total current assets	14,188,401	15,301,780
Property and Equipment, net (Note 3)	462,107	394,431
Other Long-Term Assets		
Investments (Note 4)	25,621,646	19,115,789
Contributions receivable (Note 2)	110,450	195,865
Deferred income tax, net of current portion (Note 8)	37,400	139,600
Total other long-term assets	25,769,496	19,451,254
Total assets	\$ 40,420,004	\$ 35,147,465
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 775,235	\$ 783,060
Grants payable (Note 5)	847,032	864,386
Deferred revenue (Note 3)	6,210,932	5,845,396
Accrued expenses	1,218,584	1,028,012
Total current liabilities	9,051,783	8,520,854
Long-Term Liabilities		
Deferred revenue (Note 6)	166,666	333,334
Grants payable, (Note 3)	219,873	486,802
Total long-term liabilities	386,539	820,136
Total liabilities	9,438,322	9,340,990
Commitments and Contingencies (Notes 7, 8, 12 and 13)		
Net Assets		
Unrestricted	27,683,122	23,402,358
Temporarily restricted (Note 10)	2,885,269	2,051,358
Permanently restricted (Note 10)	413,291	352,759
Total net assets	30,981,682	25,806,475
Total liabilities and net assets	\$ 40,420,004	\$ 35,147,465

See Notes to Consolidated Financial Statements.

The American Academy of Neurology and Affiliates

Consolidated Statements of Activity Years Ended December 31, 2006 and 2005

	2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support:				
Annual meeting grants and contributions	\$ 785,597	\$ 1,083,593	\$ -	\$ 1,869,190
Project grants and contributions	926,695	326,267	60,532	1,313,494
Total support	1,712,292	1,409,860	60,532	3,182,684
Revenue:				
Membership	5,538,192	-	-	5,538,192
Annual meeting	6,703,622	-	-	6,703,622
Publications	9,372,668	-	-	9,372,668
Products and services	585,413	-	-	585,413
Special courses	1,406,551	-	-	1,406,551
Investment income — operating (Note 4)	578,853	103,219	-	682,072
Other	418,919	-	-	418,919
Total revenue	24,604,218	103,219	-	24,707,437
Net assets released from restrictions	679,168	(679,168)	-	-
Total support and revenue	26,995,678	833,911	60,532	27,890,121
Expenses:				
Program services:				
Membership	2,786,008	-	-	2,786,008
Annual meeting	5,890,531	-	-	5,890,531
Projects	3,064,447	-	-	3,064,447
Publications	1,861,764	-	-	1,861,764
Committees	2,233,805	-	-	2,233,805
Products and services	1,991,010	-	-	1,991,010
Special courses	1,594,296	-	-	1,594,296
Grants and awards	870,475	-	-	870,475
Total program services	20,292,336	-	-	20,292,336
Support services:				
Member development and fund raising	672,028	-	-	672,028
General and administrative	4,055,674	-	-	4,055,674
Total support services	4,727,702	-	-	4,727,702
Total expenses	25,020,038	-	-	25,020,038
Operating change in net assets	1,975,640	833,911	60,532	2,870,083
Nonoperating investment income (Note 4)	2,305,124	-	-	2,305,124
Total change in net assets	4,280,764	833,911	60,532	5,175,207
Net assets, beginning of year	23,402,358	2,051,358	352,759	25,806,475
Net assets, end of year	\$ 27,683,122	\$ 2,885,269	\$ 413,291	\$ 30,981,682

See Notes to Consolidated Financial Statements.

2005

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ -	\$ 926,500	\$ -	\$ 926,500
723,187	1,235,793	12,751	1,971,731
<u>723,187</u>	<u>2,162,293</u>	<u>12,751</u>	<u>2,898,231</u>
5,498,115	-	-	5,498,115
6,326,936	-	-	6,326,936
9,131,976	-	-	9,131,976
573,064	93,334	-	666,398
1,269,752	205	-	1,269,957
397,698	6,376	-	404,074
381,383	-	-	381,383
<u>23,578,924</u>	<u>99,915</u>	<u>-</u>	<u>23,678,839</u>
2,703,817	(2,703,817)	-	-
<u>27,005,928</u>	<u>(441,609)</u>	<u>12,751</u>	<u>26,577,070</u>
2,578,794	-	-	2,578,794
6,338,870	-	-	6,338,870
2,631,226	-	-	2,631,226
1,688,808	-	-	1,688,808
2,217,594	-	-	2,217,594
1,519,541	-	-	1,519,541
1,433,085	-	-	1,433,085
1,482,661	-	-	1,482,661
<u>19,890,579</u>	<u>-</u>	<u>-</u>	<u>19,890,579</u>
447,790	-	-	447,790
3,466,952	-	-	3,466,952
<u>3,914,742</u>	<u>-</u>	<u>-</u>	<u>3,914,742</u>
23,805,321	-	-	23,805,321
3,200,607	(441,609)	12,751	2,771,749
626,744	-	-	626,744
<u>3,827,351</u>	<u>(441,609)</u>	<u>12,751</u>	<u>3,398,493</u>
19,575,007	2,492,967	340,008	22,407,982
<u>\$ 23,402,358</u>	<u>\$ 2,051,358</u>	<u>\$ 352,759</u>	<u>\$ 25,806,475</u>

The American Academy of Neurology and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2006 and 2005

	2006	2005
Cash Flows From Operating Activities		
Change in net assets	\$ 5,175,207	\$ 3,398,493
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	107,616	109,654
Unrealized gain on investments	(1,542,562)	(193,964)
Realized gain on sale of investments	(428,949)	-
Permanently restricted contributions received	(60,532)	(12,751)
Changes in assets and liabilities:		
Royalty receivable	(1,135,585)	3,007,991
Contributions receivable	(112,494)	(28,547)
Accounts receivable	432,584	(123,630)
Inventory	(24,627)	(13,901)
Other receivables	171,066	(372,341)
Prepaid expenses and other	48,961	35,173
Purchase of student loans	(1,255,960)	-
Sale of student loans	1,255,960	-
Deferred income tax	34,000	233,300
Accounts payable	(7,825)	(96,732)
Grants payable	(284,283)	161,357
Deferred revenue	198,868	765,579
Accrued expenses	190,572	46,326
Net cash provided by operating activities	2,762,017	6,916,007
Cash Flows From Investing Activities		
Purchase of property and equipment	(175,292)	(72,442)
Purchase of investments	(7,188,350)	(3,200,712)
Proceeds from sale of investments	2,654,004	-
Net cash used in investing activities	(4,709,638)	(3,273,154)
Cash Flows From Financing Activities		
Permanently restricted contributions received	60,532	12,751
Net increase (decrease) in cash and cash equivalents	(1,887,089)	3,655,604
Cash and Cash Equivalents, beginning of year	11,313,767	7,658,163
Cash and Cash Equivalents, end of year	\$ 9,426,678	\$ 11,313,767

See Notes to Consolidated Financial Statements.

The American Academy of Neurology and Affiliates

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of organization: The American Academy of Neurology (Academy) is a not-for-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 clinical aspects of neurology and in basic neuroscience; 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 not-for-profit corporation established to promote and administer charitable activities of scientific research and public education in the neurosciences. The Academy is the sole member of the Foundation.

American Academy of Neurology Enterprises, Inc. (AEI) is a for-profit wholly owned subsidiary established to facilitate the development of new products and services for Academy members.

Basis of consolidation: The consolidated financial statements include the accounts of the Academy and two controlled organizations, the Foundation and AEI, and are together referred to herein as the Organization. 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.

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

Permanently restricted: Those resources subject to a donor-imposed restriction that they be maintained permanently by the Organization.

Cash equivalents: 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. The Organization maintains cash in bank accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

Receivables: Accounts, contribution and 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.

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.

The American Academy of Neurology and Affiliates

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Student loan consolidation: Beginning in 2006, AEI entered into an agreement with a third party to provide student loan consolidation services to eligible members of the Academy. AEI earns a fee for this service, which is recorded as other revenue.

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 furniture and equipment	3 – 10 years
Leasehold improvements	10 years or life of lease

Investments: Investments are recorded at fair value and consist primarily of equity funds, corporate bond funds and fund of 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 reported at the estimated fair value of the Organization's share of the fund, which is calculated monthly by the custodian.

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

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.

Revenue recognition: Revenue related to the annual meeting, special courses, publications, and sale of products and services is recognized at the time the events take place or the services are performed. Revenue that is received for future periods is recorded as deferred revenue and recognized in the period to which the service relates. Membership dues are treated as contributions, as there is no tangible benefit to the members.

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 not-for-profit 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.

The American Academy of Neurology and Affiliates

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

AEI 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.

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

The Organization's publications and product and services revenues are primarily from one publisher. The royalty receivable is due from one corporation.

Use of estimates: The presentation 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 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.

Reclassifications: Certain amounts in the 2005 statement of activity have been reclassified to be consistent with the presentation in 2006. These reclassifications had no impact on changes in net assets as previously presented.

Note 2. Contributions Receivable

Contributions receivable at December 31 are as follows:

	2006	2005
Less than one year	\$ 840,302	\$ 668,393
One to five years	122,450	216,184
	<u>962,752</u>	<u>884,577</u>
Less:		
Discount to present value — 6%	(12,000)	(20,319)
Allowance for doubtful accounts	(29,000)	(55,000)
Net contributions receivable	<u>\$ 921,752</u>	<u>\$ 809,258</u>

Amounts are presented in the consolidated statements of financial position as follows:

Current	\$ 811,302	\$ 613,393
Long-term	110,450	195,865
	<u>\$ 921,752</u>	<u>\$ 809,258</u>

The American Academy of Neurology and Affiliates

Notes to Consolidated Financial Statements

Note 3. Property and Equipment

Property and equipment consists of the following at December 31:

	2006	2005
Office furniture and equipment	\$ 984,176	\$ 946,852
Leasehold improvements	412,801	326,616
Total property and equipment	<u>1,396,977</u>	<u>1,273,468</u>
Less accumulated depreciation	(934,870)	(879,037)
Net property and equipment	<u>\$ 462,107</u>	<u>\$ 394,431</u>

Note 4. Investments

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

	2006	2005
Cash	\$ 14,455	\$ 11,182
Corporate bond funds	8,263,910	7,460,112
Equity securities	26,931	20,846
Small capital fund — limited partnership	-	1,660,965
Equity funds	14,078,180	8,311,174
Fund of hedge funds	3,238,170	1,651,510
	<u>\$ 25,621,646</u>	<u>\$ 19,115,789</u>

Investment income, which includes earnings on the sweep and demand deposit accounts, consists of the following:

	Years Ended December 31	
	2006	2005
Interest and dividends	\$ 1,015,685	\$ 836,854
Change in unrealized gain	1,542,562	193,964
Realized gain on sale of investments	428,949	-
Total investment income	<u>\$ 2,987,196</u>	<u>\$ 1,030,818</u>
Operating investment income	\$ 682,072	\$ 404,074
Nonoperating investment income	2,305,124	626,744
Total investment income	<u>\$ 2,987,196</u>	<u>\$ 1,030,818</u>

The Organization maintains investment reserves 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 are considered nonoperating. All investment income in the Foundation and AEI is considered available for current operations.

The American Academy of Neurology and Affiliates

Notes to Consolidated Financial Statements

Note 5. Grants Payable

Grants payable include the following at December 31:

	2006	2005
Amounts due:		
One year or less	\$ 847,032	\$ 864,386
One to five years	233,907	518,439
Discount to present value	(14,034)	(31,637)
Net grants payable	<u>\$ 1,066,905</u>	<u>\$ 1,351,188</u>
Current portion	\$ 847,032	\$ 864,386
Long-term portion of grants payable	219,873	486,802
	<u>\$ 1,066,905</u>	<u>\$ 1,351,188</u>

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

Note 6. Deferred Revenue

Deferred revenue consists of the following at December 31:

	2006	2005
Future-year dues	\$ 3,373,642	\$ 2,919,571
Conference revenues	1,970,920	2,285,099
Publication bonus amortized over contract term	333,332	500,000
Other	699,704	474,060
Total deferred revenue	<u>6,377,598</u>	<u>6,178,730</u>
Current portion of deferred revenue	(6,210,932)	(5,845,396)
Long-term portion of deferred revenue	<u>\$ 166,666</u>	<u>\$ 333,334</u>

Note 7. Lease Commitment

The Organization leases space in St. Paul and Rochester, Minnesota, and Rochester, New York, with varying terms through 2011.

The American Academy of Neurology and Affiliates

Notes to Consolidated Financial Statements

Note 7. Lease Commitment (Continued)

Total rent expense for these leases for the years ended December 31, 2006 and 2005, totaled \$862,661 and \$795,105, respectively. Future minimum lease payments required under the noncancelable operating leases are as follows at December 31, 2006:

Years ending December 31:	
2007	\$ 403,130
2008	403,604
2009	404,091
2010	404,593
2011	403,268
Thereafter	231,348
Total minimum lease payments	<u>\$ 2,250,034</u>

Note 8. Retirement Plan

The Academy has a defined contribution retirement plan for its employees who meet certain service requirements. The Academy makes monthly contributions to the plan of 10.5 percent of the base salaries of qualifying participants. Retirement plan expense was \$472,947 and \$449,772 for the years ended December 31, 2006 and 2005, respectively.

AEI has established a 401(k) plan and a money purchase plan for its employees who meet certain service requirements. AEI makes monthly contributions to the money purchase plan of 10.5 percent of the gross salaries of qualifying participants. Retirement plan contributions were \$32,781 and \$29,465 for the years ended December 31, 2006 and 2005, respectively.

Note 9. Prepaid and Deferred Income Tax

The Academy is subject to income tax on any management fees received from AEI, net of any related expenses. All of AEI's income sources are subject to tax. Income tax expense was \$110,200 and \$233,300 for the years ended December 31, 2006 and 2005, respectively.

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

	2006	2005
Deferred tax assets:		
Net operating loss	\$ 4,900	\$ 40,400
Accrued vacation	9,200	6,500
Accrued bonus	-	6,500
Charitable contribution	-	23,600
Deferred revenue	91,500	62,600
	<u>105,600</u>	<u>139,600</u>
Less: current portion	(68,200)	-
Deferred tax asset — noncurrent	<u>\$ 37,400</u>	<u>\$ 139,600</u>

The American Academy of Neurology and Affiliates

Notes to Consolidated Financial Statements

Note 9. Prepaid and Deferred Income Tax (Continued)

The deferred tax asset was calculated using a combined federal and state rate of 39 percent and 25 percent at December 31, 2006 and 2005, respectively. Net state operating losses of \$23,871 and \$74,010 expire December 31, 2022 and 2023, respectively.

The provision for income taxes, included in general and administrative expenses, consists of the following at December 31:

	2006	2005
Current tax expense	\$ 76,200	\$ -
Deferred tax expense	34,000	233,300
Total	<u>\$ 110,200</u>	<u>\$ 233,300</u>

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the year ended December 31, 2006, due to the following:

Computed "expected" tax expense	\$ 177,592
Increase (decrease) in income taxes resulting from:	
Nondeductible meals and entertainment expenses	5,870
State income taxes, net of federal tax benefit	26,117
Benefit of income taxed at lower rates	(99,379)
Income tax expense	<u>\$ 110,200</u>

Note 10. Net Assets

Temporarily restricted: Temporarily restricted net assets are available for the following purposes as of December 31 as follows:

	2006	2005
Funds held for Academy projects	\$ 1,083,593	\$ 95,000
Education, research and award funds	1,492,486	1,425,062
Special events contribution	-	205,520
Clinical research training fellowship	111,273	-
Potamkin Prize	197,917	284,717
A.B. Baker Award	-	41,579
	<u>\$ 2,885,269</u>	<u>\$ 2,051,878</u>

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

	2006	2005
Multiple Sclerosis endowment	\$ 304,417	\$ 305,917
General research endowment	47,300	46,842
Viste patient advocate endowment	61,574	-
	<u>\$ 413,291</u>	<u>\$ 352,759</u>

The American Academy of Neurology and Affiliates

Notes to Consolidated Financial Statements

Note 11. 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 as follows:

	2006	2005
Education, research and awards funds	\$ 473,648	\$ 2,551,522
Special events	205,520	-
Foundation administrative fees for Academy projects	-	6,335
	<u>\$ 679,168</u>	<u>\$ 2,557,857</u>

Note 12. Commitments

As of December 31, 2006, the Organization had signed commitments with various hotels for the upcoming annual meetings. At December 31, 2006, the Organization was liable for approximately \$9,039,000, if the Organization cancels the agreements. The Organization has obtained insurance to cover the 2007 annual meeting.

Note 13. Related Party

United Council for Neurologic Subspecialties (Council) began operations May 1, 2003, as a not-for-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 \$198,620 and \$84,976 for 2006 and 2005, respectively, which is net of excess profits to be returned to the Academy of \$132,368 and \$244,391 for 2006 and 2005, respectively.

In October 2005, the Board of Directors of the Council approved a policy that would return excess profits generated by the Council to parent organizations. When the Council generates a change in net assets in excess of the budgeted change in net assets, the lesser of 95 percent of the change in net assets or 95 percent of parent organization's contributions exclusive of seat fees (dues) will be returned to parent organizations. The amount to be returned is based on the percentage of support contributed by each parent organization exclusive of seat fees (dues). At December 31, 2006, the Council owes the Academy \$132,368 for excess profits, which is recorded in other receivables.

The Council receives services and facilities from the Academy for a management fee. The total amount of services provided to the Council from the Academy as of December 31, 2006 and 2005, was \$83,000 and \$78,000, respectively. As of December 31, 2006 and 2005, the Academy has a receivable in the amount of \$16,800 and \$45,000, respectively, from the Council, which is recorded in other receivables.

Note 14. Subsequent Event

On May 1, 2007, the members voted to change the Academy's bylaws to enable the formation of a new American Academy of Neurology Professional Association (AANPA) to accelerate the Academy's advocacy work in the area of public health care policy. It is expected that the AANPA, which will be a subsidiary of the Academy, will be fully operational in 2007.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on the Supplementary Information

To the Board of Directors
The American Academy of Neurology and Affiliates
St. Paul, Minnesota

Our report on the audit of the consolidated financial statements of The American Academy of Neurology and Affiliates for 2006 appears on page 1. That audit was made for the purpose of forming an opinion on the 2006 consolidated financial statements taken as a whole. The consolidating information on pages 15 through 18 is presented for purposes of additional analysis of 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 audit of the 2006 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2006 consolidated financial statements taken as a whole. Consolidating information for the year ended December 31, 2005, was audited by other auditors, whose report dated April 13, 2006, expressed an unqualified opinion on such information in relation to the basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

Minneapolis, Minnesota
May 17, 2007

The American Academy of Neurology and Affiliates

Consolidating Statement of Financial Position December 31, 2006

	American Academy of Neurology	American Academy of Neurology Foundation	AAN Enterprises, Inc.	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	\$ 4,725,111	\$ 3,276,920	\$ 1,424,647	\$ -	\$ 9,426,678
Royalty receivable	1,290,610	-	-	-	1,290,610
Contributions receivable, net	-	1,056,302	-	(245,000)	811,302
Accounts receivable, net	71,600	-	1,647,513	-	1,719,113
Intercompany receivable	1,753,844	-	-	(1,753,844)	-
Inventory	73,137	-	96,806	-	169,943
Other receivables	271,673	392	-	(59,000)	213,065
Prepaid expenses and other	430,970	2,742	55,778	-	489,490
Deferred income tax	-	-	68,200	-	68,200
Total current assets	8,616,945	4,336,356	3,292,944	(2,057,844)	14,188,401
Property and Equipment, net	350,553	-	111,554	-	462,107
Other Long-Term Assets					
Investments	23,577,826	2,043,820	-	-	25,621,646
Investment in subsidiary	2,701,801	-	-	(2,701,801)	-
Interest in net assets of the Foundation	3,868,496	-	-	(3,868,496)	-
Contributions receivable, net	-	188,000	-	(77,550)	110,450
Deferred income tax	-	-	37,400	-	37,400
Total other long-term assets	30,148,123	2,231,820	37,400	(6,647,847)	25,769,496
Total assets	\$ 39,115,621	\$ 6,568,176	\$ 3,441,898	\$ (8,705,691)	\$ 40,420,004
Liabilities and Net Assets					
Current Liabilities					
Accounts payable	\$ 521,940	\$ 288	\$ 312,007	\$ (59,000)	\$ 775,235
Grants payable	245,000	847,032	-	(245,000)	847,032
Intercompany payable	-	1,632,487	121,357	(1,753,844)	-
Deferred revenue	6,059,535	-	151,397	-	6,210,932
Accrued expenses	1,146,581	-	72,003	-	1,218,584
Total current liabilities	7,973,056	2,479,807	656,764	(2,057,844)	9,051,783
Long-Term Liabilities					
Deferred revenue	83,333	-	83,333	-	166,666
Intercompany payable	-	-	-	-	-
Grants payable	77,550	219,873	-	(77,550)	219,873
Total long-term liabilities	160,883	219,873	83,333	(77,550)	386,539
Total liabilities	8,133,939	2,699,680	740,097	(2,135,394)	9,438,322
Net Assets					
Unrestricted	27,683,122	783,567	-	(783,567)	27,683,122
Temporarily restricted	2,885,269	2,671,638	-	(2,671,638)	2,885,269
Permanently restricted	413,291	413,291	-	(413,291)	413,291
Stockholder's equity	-	-	2,701,801	(2,701,801)	-
Total net assets	30,981,682	3,868,496	2,701,801	(6,570,297)	30,981,682
Total liabilities and net assets	\$ 39,115,621	\$ 6,568,176	\$ 3,441,898	\$ (8,705,691)	\$ 40,420,004

The American Academy of Neurology and Affiliates

Consolidating Statement of Activity Year Ended December 31, 2006

	American Academy of Neurology	American Academy of Neurology Foundation	AAN Enterprises, Inc.	Eliminations	Consolidated
Support:					
Annual meeting grants and contributions	\$ -	\$ 2,164,828	\$ -	\$ (295,638)	\$ 1,869,190
Project grants and contributions	1,380,731	2,547,997	-	(2,615,234)	1,313,494
Total support	1,380,731	4,712,825	-	(2,910,872)	3,182,684
Revenue:					
Membership	5,538,192	-	-	-	5,538,192
Annual meeting	6,703,622	-	-	-	6,703,622
Publications	6,421,290	-	3,120,370	(168,992)	9,372,668
Products and services	585,413	-	-	-	585,413
Special courses	1,406,551	-	-	-	1,406,551
Management fees	655,000	-	75,220	(730,220)	-
Investment income — operating	353,578	259,935	68,559	-	682,072
Other	365,113	-	112,806	(59,000)	418,919
Total revenue	22,028,759	259,935	3,376,955	(958,212)	24,707,437
Total support and revenue	23,409,490	4,972,760	3,376,955	(3,869,084)	27,890,121
Expenses:					
Program services:					
Membership	2,786,008	-	-	-	2,786,008
Annual meeting	5,890,531	-	-	-	5,890,531
Projects	3,064,447	-	-	-	3,064,447
Publications	350,670	-	1,511,094	-	1,861,764
Committees	2,233,805	-	-	-	2,233,805
Products and services	1,991,010	-	-	-	1,991,010
Special courses	1,594,296	-	-	-	1,594,296
Grants and awards	-	2,516,809	-	(1,646,334)	870,475
Total program services	17,910,767	2,516,809	1,511,094	(1,646,334)	20,292,336
Support services:					
Member development and fund raising	400,682	566,984	-	(295,638)	672,028
General and administrative	4,068,963	460,091	1,453,732	(1,927,112)	4,055,674
Total support services	4,469,645	1,027,075	1,453,732	(2,222,750)	4,727,702
Total expenses	22,380,412	3,543,884	2,964,826	(3,869,084)	25,020,038
Operating change in net assets	1,029,078	1,428,876	412,129	-	2,870,083
Nonoperating income:					
Investment income	2,305,124	-	-	-	2,305,124
Unrealized gain from AEI	412,129	-	-	(412,129)	-
Total nonoperating income	2,717,253	-	-	(412,129)	2,305,124
Increase in interest in net assets of the Foundation	1,428,876	-	-	(1,428,876)	-
Total change in net assets	5,175,207	1,428,876	412,129	(1,841,005)	5,175,207
Net assets, beginning of year	25,806,475	2,439,620	2,289,672	(4,729,292)	25,806,475
Net assets, end of year	\$ 30,981,682	\$ 3,868,496	\$ 2,701,801	\$ (6,570,297)	\$ 30,981,682

The American Academy of Neurology and Affiliates

Consolidating Statement of Financial Position December 31, 2005

Assets	American Academy of Neurology	American Academy of Neurology Foundation	AAN Enterprises, Inc.	Eliminations	Consolidated
Current Assets					
Cash and cash equivalents	\$ 9,420,134	\$ 972,809	\$ 920,824	\$ -	\$ 11,313,767
Royalty receivable	155,025	-	-	-	155,025
Contributions receivable, net	-	613,393	-	-	613,393
Accounts receivable, net	504,171	-	1,742,211	(94,685)	2,151,697
Intercompany receivable	25,954	-	53,863	(79,817)	-
Inventory	92,846	-	52,470	-	145,316
Other receivables	384,131	-	-	-	384,131
Prepaid expenses and other	503,393	29,383	5,675	-	538,451
Total current assets	11,085,654	1,615,585	2,775,043	(174,502)	15,301,780
Property and Equipment, net	394,431	-	-	-	394,431
Other Long-Term Assets					
Investments	17,272,703	1,843,086	-	-	19,115,789
Investment in subsidiary	2,289,672	-	-	(2,289,672)	-
Interest in net assets of the Foundation	2,439,620	-	-	(2,439,620)	-
Contributions receivable, net	-	195,865	-	-	195,865
Deferred income tax	-	-	139,600	-	139,600
Total other long-term assets	22,001,995	2,038,951	139,600	(4,729,292)	19,451,254
Total assets	\$ 33,482,080	\$ 3,654,536	\$ 2,914,643	\$ (4,903,794)	\$ 35,147,465
Liabilities and Net Assets					
Current Liabilities					
Accounts payable	\$ 605,710	\$ 39,639	\$ 232,396	\$ (94,685)	\$ 783,060
Grants payable	155,728	708,658	-	-	864,386
Intercompany payable	10,000	69,817	-	(79,817)	-
Deferred revenue	5,693,153	-	152,243	-	5,845,396
Accrued expenses	954,347	-	73,665	-	1,028,012
Total current liabilities	7,418,938	818,114	458,304	(174,502)	8,520,854
Long-Term Liabilities					
Deferred revenue	166,667	-	166,667	-	333,334
Grants payable	90,000	396,802	-	-	486,802
Total long-term liabilities	256,667	396,802	166,667	-	820,136
Total liabilities	7,675,605	1,214,916	624,971	(174,502)	9,340,990
Net Assets					
Unrestricted	23,402,358	201,727	-	(201,727)	23,402,358
Temporarily restricted	2,051,358	1,885,134	-	(1,885,134)	2,051,358
Permanently restricted	352,759	352,759	-	(352,759)	352,759
Stockholder's equity	-	-	2,289,672	(2,289,672)	-
Total net assets	25,806,475	2,439,620	2,289,672	(4,729,292)	25,806,475
Total liabilities and net assets	\$ 33,482,080	\$ 3,654,536	\$ 2,914,643	\$ (4,903,794)	\$ 35,147,465

The American Academy of Neurology and Affiliates

Consolidating Statement of Activity Year Ended December 31, 2005

	American Academy of Neurology	American Academy of Neurology Foundation	AAN Enterprises, Inc.	Eliminations	Consolidated
Support:					
Annual meeting grants and contributions	\$ -	\$ 926,500	\$ -	\$ -	\$ 926,500
Project grants and contributions	2,015,660	2,787,731	-	(2,831,660)	1,971,731
Total support	2,015,660	3,714,231	-	(2,831,660)	2,898,231
Revenue:					
Membership	5,498,115	-	-	-	5,498,115
Annual meeting	6,326,936	-	-	-	6,326,936
Publications	6,104,861	-	3,027,115	-	9,131,976
Products and services	666,398	-	-	-	666,398
Special courses	1,269,957	-	-	-	1,269,957
Management fees	619,048	-	84,650	(703,698)	-
Investment income — operating	255,377	108,244	40,453	-	404,074
Other	471,831	-	4,237	(94,685)	381,383
Total revenue	21,212,523	108,244	3,156,455	(798,383)	23,678,839
Total support and revenue	23,228,183	3,822,475	3,156,455	(3,630,043)	26,577,070
Expenses:					
Program services:					
Membership	2,578,794	-	-	-	2,578,794
Annual meeting	6,338,870	-	-	-	6,338,870
Projects	2,631,226	-	-	-	2,631,226
Publications	318,348	-	1,370,460	-	1,688,808
Committees	2,217,594	-	-	-	2,217,594
Products and services	1,519,541	-	-	-	1,519,541
Special courses	1,433,085	-	-	-	1,433,085
Grants and awards	-	3,498,321	-	(2,015,660)	1,482,661
Total program services	17,037,458	3,498,321	1,370,460	(2,015,660)	19,890,579
Support services:					
Member development and fund raising	100,970	346,820	-	-	447,790
General and administrative	3,578,420	423,906	1,079,009	(1,614,383)	3,466,952
Total support services	3,679,390	770,726	1,079,009	(1,614,383)	3,914,742
Total expenses	20,716,848	4,269,047	2,449,469	(3,630,043)	23,805,321
Operating change in net assets	2,511,335	(446,572)	706,986	-	2,771,749
Nonoperating income:					
Nonoperating investment income	626,744	-	-	-	626,744
Unrealized gain from AEI	706,986	-	-	(706,986)	-
Total nonoperating income	1,333,730	-	-	(706,986)	626,744
Decrease in interest in net assets of the Foundation	(446,572)			446,572	-
Total change in net assets	3,398,493	(446,572)	706,986	(260,414)	3,398,493
Net assets, beginning of year	22,407,982	2,886,192	1,582,686	(4,468,878)	22,407,982
Net assets, end of year	\$ 25,806,475	\$ 2,439,620	\$ 2,289,672	\$ (4,729,292)	\$ 25,806,475