

McGladrey & Pullen

Certified Public Accountants

American Academy of Neurology Foundation

Financial Report
December 31, 2006

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Independent Auditor's Report

To the Board of Directors
American Academy of Neurology Foundation
St. Paul, Minnesota

We have audited the accompanying statement of financial position of the American Academy of Neurology Foundation as of December 31, 2006, and the related statements of activity and cash flows for the year 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 audit. The financial statements of the American Academy of Neurology Foundation 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2006 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, 2006, and the changes in its net assets and its 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

American Academy of Neurology Foundation

Statements of Financial Position

December 31, 2006 and 2005

Assets	2006	2005
Current Assets		
Cash and cash equivalents	\$ 3,276,920	\$ 972,809
Contributions receivable, net (Note 2)	1,056,302	613,393
Prepaid expenses and other	3,134	29,383
Total current assets	<u>4,336,356</u>	<u>1,615,585</u>
Other Long-Term Assets		
Contributions receivable, net (Note 2)	188,000	195,865
Investments	2,043,820	1,843,086
Total other long-term assets	<u>2,231,820</u>	<u>2,038,951</u>
Total assets	<u>\$ 6,568,176</u>	<u>\$ 3,654,536</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 288	\$ 39,639
Grants payable (Note 3)	847,032	708,658
Intercompany payables	1,632,487	69,817
Total current liabilities	<u>2,479,807</u>	<u>818,114</u>
Long-Term Grants Payable (Note 3)	219,873	396,802
Total liabilities	<u>2,699,680</u>	<u>1,214,916</u>
Net Assets (Note 5)		
Unrestricted	783,567	201,727
Temporarily restricted	2,671,638	1,885,134
Permanently restricted	413,291	352,759
Total net assets	<u>3,868,496</u>	<u>2,439,620</u>
Total liabilities and net assets	<u>\$ 6,568,176</u>	<u>\$ 3,654,536</u>

See Notes to Financial Statements.

American Academy of Neurology Foundation

Statements of Activity

Years Ended December 31, 2006 and 2005

	2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support:				
Contributions	\$ 2,585,726	\$ 1,352,913	\$ 60,532	\$ 3,999,171
Dues	237,500	-	-	237,500
Service fees	295,638	-	-	295,638
Special event income	180,516	-	-	180,516
Total support	3,299,380	1,352,913	60,532	4,712,825
Revenue:				
Investment income	156,716	103,219	-	259,935
Net assets released from restrictions	669,628	(669,628)	-	-
Total revenue and support	4,125,724	786,504	60,532	4,972,760
Expense:				
Program services	2,516,809	-	-	2,516,809
General and administrative	460,091	-	-	460,091
Fundraising, including direct benefit expense of \$328,951 and \$109,709 in 2006 and 2005, respectively	566,984	-	-	566,984
Total expense	3,543,884	-	-	3,543,884
Increase (decrease) in net assets	581,840	786,504	60,532	1,428,876
Net assets — beginning of year	201,727	1,885,134	352,759	2,439,620
Net assets — end of year	\$ 783,567	\$ 2,671,638	\$ 413,291	\$ 3,868,496

See Notes to Financial Statements.

2005

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,161,471	\$ 1,956,773	\$ 12,751	\$ 3,130,995
252,493	-	-	252,493
-	-	-	-
234,932	205,520	-	440,452
1,648,896	2,162,293	12,751	3,823,940
101,868	6,376	-	108,244
2,557,857	(2,557,857)	-	-
4,308,621	(389,188)	12,751	3,932,184
3,498,321	-	-	3,498,321
423,906	-	-	423,906
456,529	-	-	456,529
4,378,756	-	-	4,378,756
(70,135)	(389,188)	12,751	(446,572)
271,862	2,274,322	340,008	2,886,192
\$ 201,727	\$ 1,885,134	\$ 352,759	\$ 2,439,620

American Academy of Neurology Foundation

Statements of Cash Flows

Years Ended December 31, 2006 and 2005

	2006	2005
Cash Flows From Operating Activities		
Change in net assets	\$ 1,428,876	\$ (446,572)
Permanently restricted contributions received	(60,532)	(12,751)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Donated investments	(917)	(1,056)
Unrealized gain on investments	(199,817)	(66,877)
Contributions receivable	(435,044)	(28,547)
Intercompany receivables	-	45,779
Prepaid expenses and other	26,249	(23,432)
Accounts payable	(39,351)	(34,089)
Grants payable	(38,555)	95,629
Intercompany payables	1,562,670	69,817
Net cash provided by (used in) operating activities	<u>2,243,579</u>	<u>(402,099)</u>
Cash Flows From Investing Activities		
Purchase of investments	-	(200,000)
Cash Flows From Financing Activities		
Permanently restricted contributions received	60,532	12,751
Net increase (decrease) in cash and cash equivalents	<u>2,304,111</u>	<u>(589,348)</u>
Cash and Cash Equivalents — beginning of year	<u>972,809</u>	1,562,157
Cash and Cash Equivalents — end of year	<u>\$ 3,276,920</u>	<u>\$ 972,809</u>

See Notes to Financial Statements.

American Academy of Neurology Foundation

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of organization: The American Academy of Neurology Foundation (the Foundation) is a not-for-profit corporation established to promote and administer charitable activities of scientific research and education in the neurosciences. The Foundation is related to the American Academy of Neurology (the Academy) in that the Academy appoints a majority of the 16 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 Foundation and changes therein are classified and reported as follows:

Unrestricted: Resources presently available for support of the operations of the Foundation 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 Foundation or passage of time. Donor-restricted contributions whose restrictions are met in the same reporting period in which contributions are received are reported as unrestricted.

Permanently restricted: Those resources subject to donor-imposed restrictions that they be maintained permanently by the Foundation. The donors of these resources permitted the Foundation to use all or part of the income earned, including capital appreciation, in accordance with the purposes specified by the donor.

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

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. Contributions receivable are recorded at the present value of their future cash flows using a risk-free rate of return.

Investments: Investments are recorded at fair value based on quoted market prices 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 Foundation's investments include limited partnerships that are diversified funds of hedge funds, which are reported at the estimated value of the Foundation'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 and are recorded at the present value of future cash flows using a risk-free rate of return.

American Academy of Neurology Foundation

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (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 or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are released to unrestricted net assets.

In 2005, the Foundation remitted to the Academy 100 percent of the pledges made for the benefit of the Academy, and in return the Academy increased its annual unrestricted contributions made to the Foundation. During 2006, the Foundation transitioned from general operating support provided by the Academy to a 15 percent service fee on contributions raised (see Note 4) to support operating expenses.

The amounts held for the Academy at December 31, 2006 and 2005, represent the Academy's portion of cash and pledges receivable.

Dues: Dues are treated as contributions as there is no tangible benefit to the members.

Service fees: Service fees represent a 15 percent fee the Foundation receives from the Academy for soliciting restricted grants and for soliciting and collecting fees for exhibits to the annual meeting.

Tax-exempt status: The Foundation operates on a not-for-profit 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 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 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.

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

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

American Academy of Neurology Foundation

Notes to Financial Statements

Note 2. Contributions Receivable

Contributions receivable at December 31 are as follows:

	2006		2005	
	Amount	Percent	Amount	Percent
Support services expense				
General and administrative	\$ 46,091	10%	\$ 42,906	11%
Fundraising	56,984	12%	46,529	12%
Total support services	<u>\$ 1,027,075</u>	<u>22%</u>	<u>\$ 89,435</u>	<u>23%</u>
Total funds raised	<u>\$ 4,712,825</u>		<u>\$ 3,823,940</u>	

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

Note 3. Grants Payable

Grants payable include the following at December 31:

	2006	2005
Amounts due:		
One year or less	\$ 847,032	\$ 708,658
One to five years	233,907	428,439
Discount to present value	(14,034)	(31,637)
Net grants payable	<u>\$ 1,066,905</u>	<u>\$ 1,105,460</u>
Current portion	\$ 847,032	\$ 708,658
Long-term portion of grants payable	219,873	396,802
	<u>\$ 1,066,905</u>	<u>\$ 1,105,460</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.

American Academy of Neurology Foundation

Notes to Financial Statements

Note 3. Grants Payable (Continued)

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

	2006		2005	
	Amount	Percent	Amount	Percent
Support services expense:				
General and administrative	\$ 460,091	10%	\$ 423,906	11%
Fund raising	566,984	12%	456,529	12%
Total support services	<u>\$ 1,027,075</u>	<u>22%</u>	<u>\$ 880,435</u>	<u>23%</u>
Total funds raised	<u>\$ 4,712,825</u>		<u>\$ 3,823,940</u>	

Note 4. Related Party

Fund-raising, 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 \$350,000 and \$347,214 for the years ended December 31, 2006 and 2005, respectively.

The Foundation earned service fees from the Academy in the amount of \$295,638 in 2006, for raising restricted grant funds and for soliciting and collecting fees for exhibits for the annual meeting.

For the years ended December 31, 2006 and 2005, the Academy contributed \$968,900 and \$816,000, respectively, to support the Foundation's unrestricted activities and contributed an additional \$88,493 for restricted projects in 2005.

Note 5. Net Assets

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

	2006	2005
Funds held for Academy projects	\$ 1,083,593	\$ 95,000
Education, research and award funds	1,278,855	1,299,897
Special events contribution	-	205,520
Clinical research training fellowship	111,273	-
Potamkin Prize	197,917	284,717
Total	<u>\$ 2,671,638</u>	<u>\$ 1,885,134</u>

American Academy of Neurology Foundation

Notes to Financial Statements

Note 5. Net Assets (Continued)

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>

Note 6. Assets Released From Restriction

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

	2006	2005
Education, research and awards funds	\$ 464,108	\$ 2,551,522
Special events	205,520	-
Foundation administrative fees for Academy projects	-	6,335
	<u>\$ 669,628</u>	<u>\$ 2,557,857</u>