

**McGladrey & Pullen**

Certified Public Accountants

# **The American Academy of Neurology and Affiliates**

Consolidated Financial Report  
December 31, 2007

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
The American Academy of Neurology and Affiliates

We have audited the accompanying consolidated statements 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, 2007 and 2006, and the related consolidated statements of activity and cash flows for the years 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 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2007 and 2006, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Minneapolis, Minnesota  
July 8, 2008

The American Academy of Neurology and Affiliates

Consolidated Statements of Financial Position  
December 31, 2007 and 2006

| <b>Assets</b>   | <b>2007</b>          | <b>2006</b>          |
|---|----------------------|----------------------|
| <b>Current Assets</b>                                 |                      |                      |
| Cash and cash equivalents                             | \$ 11,942,186        | \$ 9,426,678         |
| Royalty receivable                                    | 2,116,700            | 1,290,610            |
| Contributions receivable (Note 2)                     | 786,834              | 811,302              |
| Accounts receivable, net                              | 1,760,565            | 1,719,113            |
| Due from affiliate                                    | 88,081               | -                    |
| Inventory   | 95,052               | 169,943              |
| Other receivables                                     | 2,811                | 213,065              |
| Prepaid expenses and other                            | 616,926              | 489,490              |
| Deferred income tax (Note 9)                          | 68,450               | 68,200               |
| <b>Total current assets</b>                           | <b>17,477,605</b>    | <b>14,188,401</b>    |
| Property and Equipment, net (Note 3)                  | <b>652,131</b>       | <b>462,107</b>       |
| <b>Other Long-Term Assets</b>                         |                      |                      |
| Investments (Note 4)                                  | 27,770,433           | 25,621,646           |
| Contributions receivable (Note 2)                     | -                    | 110,450              |
| Deferred income tax, net of current portion (Note 9)  | 1,350                | 37,400               |
| <b>Total other long-term assets</b>                   | <b>27,771,783</b>    | <b>25,769,496</b>    |
| <b>Total assets</b>                                   | <b>\$ 45,901,519</b> | <b>\$ 40,420,004</b> |
| <b>Liabilities and Net Assets</b>                     |                      |                      |
| <b>Current Liabilities</b>                            |                      |                      |
| Accounts payable                                      | \$ 1,030,971         | \$ 775,235           |
| Grants payable (Note 5)                               | 751,407              | 847,032              |
| Deferred revenue (Note 6)                             | 6,329,841            | 6,210,932            |
| Accrued expenses                                      | 1,343,404            | 1,218,584            |
| <b>Total current liabilities</b>                      | <b>9,455,623</b>     | <b>9,051,783</b>     |
| <b>Long-Term Liabilities</b>                          |                      |                      |
| Deferred revenue (Note 6)                             | -                    | 166,666              |
| Grants payable (Note 5)                               | 175,000              | 219,873              |
| <b>Total long-term liabilities</b>                    | <b>175,000</b>       | <b>386,539</b>       |
| <b>Total liabilities</b>                              | <b>9,630,623</b>     | <b>9,438,322</b>     |
| Commitments and Contingencies (Notes 7, 8, 12 and 13) |                      |                      |
| <b>Net Assets</b>                                     |                      |                      |
| Unrestricted  | 32,944,079           | 27,683,122           |
| Temporarily restricted (Note 10)                      | 2,846,779            | 2,885,269            |
| Permanently restricted (Note 10)                      | 480,038              | 413,291              |
| <b>Total net assets</b>                               | <b>36,270,896</b>    | <b>30,981,682</b>    |
| <b>Total liabilities and net assets</b>               | <b>\$ 45,901,519</b> | <b>\$ 40,420,004</b> |

See Notes to Consolidated Financial Statements.

# The American Academy of Neurology and Affiliates

## Consolidated Statements of Activity Years Ended December 31, 2007 and 2006

|   | 2007              |                        |                        | Total             |
|---|-------------------|------------------------|------------------------|-------------------|
|   | Unrestricted      | Temporarily Restricted | Permanently Restricted |                   |
| Support:  |                   |                        |                        |                   |
| Annual meeting grants and contributions                           | \$ 296,358        | \$ 1,226,725           | \$ -                   | \$ 1,523,083      |
| Project grants and contributions                                  | 2,394,466         | 145,694                | 66,747                 | 2,606,907         |
| <b>Total support</b>  | <b>2,690,824</b>  | <b>1,372,419</b>       | <b>66,747</b>          | <b>4,129,990</b>  |
| Revenue:  |                   |                        |                        |                   |
| Membership  | 5,584,451         | -                      | -                      | 5,584,451         |
| Annual meeting  | 8,028,426         | -                      | -                      | 8,028,426         |
| Publications  | 10,478,146        | -                      | -                      | 10,478,146        |
| Products and services   | 745,723           | -                      | -                      | 745,723           |
| Special courses   | 1,448,592         | -                      | -                      | 1,448,592         |
| Investment income — operating (Note 4)                            | 561,602           | 141,711                | -                      | 703,313           |
| Other   | 164,301           | -                      | -                      | 164,301           |
| <b>Total revenue</b>  | <b>27,011,241</b> | <b>141,711</b>         | <b>-</b>               | <b>27,152,952</b> |
| Net assets released from restrictions                             | 1,552,620         | (1,552,620)            | -                      | -                 |
| <b>Total support and revenue</b>                                  | <b>31,254,685</b> | <b>(38,490)</b>        | <b>66,747</b>          | <b>31,282,942</b> |
| Expenses:   |                   |                        |                        |                   |
| Program services:   |                   |                        |                        |                   |
| Membership  | 3,141,385         | -                      | -                      | 3,141,385         |
| Annual meeting  | 6,876,111         | -                      | -                      | 6,876,111         |
| Projects  | 3,089,979         | -                      | -                      | 3,089,979         |
| Publications  | 2,371,816         | -                      | -                      | 2,371,816         |
| Committees  | 2,901,914         | -                      | -                      | 2,901,914         |
| Products and services   | 2,451,158         | -                      | -                      | 2,451,158         |
| Special courses   | 1,659,591         | -                      | -                      | 1,659,591         |
| Grants and awards   | 1,402,120         | -                      | -                      | 1,402,120         |
| <b>Total program services</b>                                     | <b>23,894,074</b> | <b>-</b>               | <b>-</b>               | <b>23,894,074</b> |
| Support services:   |                   |                        |                        |                   |
| Member development and fund raising                               | 676,687           | -                      | -                      | 676,687           |
| General and administrative  | 3,446,214         | -                      | -                      | 3,446,214         |
| <b>Total support services</b>                                     | <b>4,122,901</b>  | <b>-</b>               | <b>-</b>               | <b>4,122,901</b>  |
| <b>Total expenses</b>   | <b>28,016,975</b> | <b>-</b>               | <b>-</b>               | <b>28,016,975</b> |
| <b>Change in net assets before nonoperating investment income</b> | <b>3,237,710</b>  | <b>(38,490)</b>        | <b>66,747</b>          | <b>3,265,967</b>  |
| Nonoperating investment income (Note 4)                           | 2,023,247         | -                      | -                      | 2,023,247         |
| <b>Change in net assets</b>                                       | <b>5,260,957</b>  | <b>(38,490)</b>        | <b>66,747</b>          | <b>5,289,214</b>  |
| Net assets, beginning of year                                     | 27,683,122        | 2,885,269              | 413,291                | 30,981,682        |
| Net assets, end of year   | \$ 32,944,079     | \$ 2,846,779           | \$ 480,038             | \$ 36,270,896     |

See Notes to Consolidated Financial Statements.

2006

| Unrestricted  | Temporarily Restricted | Permanently Restricted | Total         |
|---------------|------------------------|------------------------|---------------|
| \$ 785,597    | \$ 1,083,593           | \$ -                   | \$ 1,869,190  |
| 926,695       | 326,267                | 60,532                 | 1,313,494     |
| 1,712,292     | 1,409,860              | 60,532                 | 3,182,684     |
| 5,538,192     | -                      | -                      | 5,538,192     |
| 6,703,622     | -                      | -                      | 6,703,622     |
| 9,372,668     | -                      | -                      | 9,372,668     |
| 585,413       | -                      | -                      | 585,413       |
| 1,406,551     | -                      | -                      | 1,406,551     |
| 578,853       | 103,219                | -                      | 682,072       |
| 418,919       | -                      | -                      | 418,919       |
| 24,604,218    | 103,219                | -                      | 24,707,437    |
| 679,168       | (679,168)              | -                      | -             |
| 26,995,678    | 833,911                | 60,532                 | 27,890,121    |
| 2,786,008     | -                      | -                      | 2,786,008     |
| 5,890,531     | -                      | -                      | 5,890,531     |
| 3,064,447     | -                      | -                      | 3,064,447     |
| 1,861,764     | -                      | -                      | 1,861,764     |
| 2,233,805     | -                      | -                      | 2,233,805     |
| 1,991,010     | -                      | -                      | 1,991,010     |
| 1,594,296     | -                      | -                      | 1,594,296     |
| 870,475       | -                      | -                      | 870,475       |
| 20,292,336    | -                      | -                      | 20,292,336    |
| 672,028       | -                      | -                      | 672,028       |
| 4,055,674     | -                      | -                      | 4,055,674     |
| 4,727,702     | -                      | -                      | 4,727,702     |
| 25,020,038    | -                      | -                      | 25,020,038    |
| 1,975,640     | 833,911                | 60,532                 | 2,870,083     |
| 2,305,124     | -                      | -                      | 2,305,124     |
| 4,280,764     | 833,911                | 60,532                 | 5,175,207     |
| 23,402,358    | 2,051,358              | 352,759                | 25,806,475    |
| \$ 27,683,122 | \$ 2,885,269           | \$ 413,291             | \$ 30,981,682 |

The American Academy of Neurology and Affiliates

Consolidated Statements of Cash Flows  
Years Ended December 31, 2007 and 2006

|   | 2007                 | 2006                |
|---|----------------------|---------------------|
| Cash Flows From Operating Activities  |                      |                     |
| Change in net assets  | \$ 5,289,214         | \$ 5,175,207        |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                      |                     |
| Depreciation  | 163,215              | 107,616             |
| Unrealized gain on investments  | (1,573,967)          | (1,542,562)         |
| Realized gain on sale of investments  | -                    | (428,949)           |
| Permanently restricted contributions received   | (66,747)             | (60,532)            |
| Changes in assets and liabilities:  |                      |                     |
| Royalty receivable  | (826,090)            | (1,135,585)         |
| Contributions receivable  | 78,918               | (112,494)           |
| Accounts receivable   | (41,452)             | 432,584             |
| Due from affiliate  | (88,081)             | -                   |
| Inventory   | 74,891               | (24,627)            |
| Other receivables   | 210,254              | 171,066             |
| Prepaid expenses and other  | (127,436)            | 48,961              |
| Purchase of student loans   | (279,560)            | (1,255,960)         |
| Sale of student loans   | 279,560              | 1,255,960           |
| Deferred income tax   | 35,800               | 34,000              |
| Accounts payable  | 255,736              | (7,825)             |
| Grants payable  | (140,498)            | (284,283)           |
| Deferred revenue  | (47,757)             | 198,868             |
| Accrued expenses  | 124,820              | 190,572             |
| <b>Net cash provided by operating activities</b>  | <b>3,320,820</b>     | <b>2,762,017</b>    |
| Cash Flows From Investing Activities  |                      |                     |
| Purchase of property and equipment  | (353,239)            | (175,292)           |
| Purchase of investments   | (2,175,836)          | (7,188,350)         |
| Proceeds from sale of investments   | 1,601,016            | 2,654,004           |
| <b>Net cash used in investing activities</b>  | <b>(928,059)</b>     | <b>(4,709,638)</b>  |
| Cash Flows From Financing Activities  |                      |                     |
| Permanently restricted contributions received   | 122,747              | 60,532              |
| <b>Net increase (decrease) in cash and cash equivalents</b>                                 | <b>2,515,508</b>     | <b>(1,887,089)</b>  |
| Cash and Cash Equivalents, beginning of year  | 9,426,678            | 11,313,767          |
| Cash and Cash Equivalents, end of year  | <b>\$ 11,942,186</b> | <b>\$ 9,426,678</b> |

See Notes to Consolidated Financial Statements.

## The American Academy of Neurology and Affiliates

### Notes to Consolidated Financial Statements

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#### 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.

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

**Basis of consolidation:** The consolidated financial statements include the accounts of the Academy and three controlled organizations, the Foundation, AEI and AANPA, 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.

## The American Academy of Neurology and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**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.

**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 in marketable securities are recorded at fair value and consist primarily of equity funds and corporate bond funds. In addition, the Organization's investments include a limited partnership that is a diversified fund of hedge funds, which is reported at the estimated fair value of the Organization's share of the fund, which is calculated monthly by the custodian. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility.

**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 are satisfied 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 is satisfied, 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 charged directly to programs and support services where possible. Remaining expenses are allocated based on actual time spent on programs and support services.

## The American Academy of Neurology and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**Tax-exempt status:** The Academy and the Foundation are organized and operate on a not-for-profit basis, and their tax-exempt status has been recognized 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.

AEI is a for-profit corporation and subject to federal and state taxes on all net income.

AANPA is organized on a not-for-profit basis, and their tax-exempt status has been recognized by the Internal Revenue Service under Section 501(c)(6). AANPA is subject to unrelated business income taxes under the Internal Revenue Code for federal and state tax purposes.

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.

**Emerging accounting standards:** In December 2004 the Financial Accounting Standards Board (FASB) has issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes — an interpretation of SFAS No. 109, Accounting for Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Academy's financial statements. FIN 48 also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. In February 2008, the FASB delayed the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2007. The Academy has not yet determined the potential financial statement impact, if any, of adopting FIN 48.

## The American Academy of Neurology and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

In September 2006 the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not require new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Academy has not yet determined the potential financial statement impact of adopting SFAS 157, if any.

**Reclassifications:** Certain amounts in the 2006 consolidating statement of activity have been reclassified to be consistent with presentation in 2007. These reclassifications had no impact on changes in net assets as previously reported.

#### Note 2. Contributions Receivable

Contributions receivable at December 31 are as follows:

|                                 | 2007              | 2006              |
|---------------------------------|-------------------|-------------------|
| Less than one year              | \$ 787,834        | \$ 840,302        |
| One to five years               | -                 | 122,450           |
|                                 | <u>787,834</u>    | <u>962,752</u>    |
| Less:                           |                   |                   |
| Discount to present value — 6%  | -                 | (12,000)          |
| Allowance for doubtful accounts | (1,000)           | (29,000)          |
| Net contributions receivable    | <u>\$ 786,834</u> | <u>\$ 921,752</u> |

Amounts are presented in the consolidated statements of financial position as follows at December 31:

|           | 2007              | 2006              |
|-----------|-------------------|-------------------|
| Current   | \$ 786,834        | \$ 811,302        |
| Long-term | -                 | 110,450           |
|           | <u>\$ 786,834</u> | <u>\$ 921,752</u> |

#### Note 3. Property and Equipment

Property and equipment consists of the following at December 31:

|                                | 2007               | 2006              |
|--------------------------------|--------------------|-------------------|
| Office furniture and equipment | \$ 1,323,451       | \$ 984,176        |
| Leasehold improvements         | 426,765            | 412,801           |
| Total property and equipment   | <u>1,750,216</u>   | <u>1,396,977</u>  |
| Less accumulated depreciation  | <u>(1,098,085)</u> | <u>(934,870)</u>  |
| Net property and equipment     | <u>\$ 652,131</u>  | <u>\$ 462,107</u> |

The American Academy of Neurology and Affiliates

Notes to Consolidated Financial Statements

**Note 4. Investments**

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

|                      | 2007                 | 2006                 |
|----------------------|----------------------|----------------------|
| Cash                 | \$ 1,772             | \$ 14,455            |
| Corporate bond funds | 7,632,748            | 8,263,910            |
| Equity securities    | 2,073                | 26,931               |
| Equity funds         | 16,505,007           | 14,078,180           |
| Fund of hedge funds  | 3,628,833            | 3,238,170            |
|                      | <u>\$ 27,770,433</u> | <u>\$ 25,621,646</u> |

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

|                                      | Years Ended December 31 |                     |
|--------------------------------------|-------------------------|---------------------|
|                                      | 2007                    | 2006                |
| Interest and dividends               | \$ 1,152,593            | \$ 1,015,685        |
| Change in unrealized gain            | 1,573,967               | 1,542,562           |
| Realized gain on sale of investments | -                       | 428,949             |
| Total investment income              | <u>\$ 2,726,560</u>     | <u>\$ 2,987,196</u> |
| Operating investment income          | \$ 703,313              | \$ 682,072          |
| Nonoperating investment income       | 2,023,247               | 2,305,124           |
| Total investment income              | <u>\$ 2,726,560</u>     | <u>\$ 2,987,196</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.

**Note 5. Grants Payable**

Grants payable include the following at December 31:

|                                     | 2007              | 2006                |
|-------------------------------------|-------------------|---------------------|
| Amounts due:                        |                   |                     |
| One year or less                    | \$ 751,407        | \$ 847,032          |
| One to five years                   | 180,128           | 233,907             |
| Discount to present value           | (5,128)           | (14,034)            |
| Net grants payable                  | <u>\$ 926,407</u> | <u>\$ 1,066,905</u> |
| Current portion                     | \$ 751,407        | \$ 847,032          |
| Long-term portion of grants payable | 175,000           | 219,873             |
|                                     | <u>\$ 926,407</u> | <u>\$ 1,066,905</u> |

## The American Academy of Neurology and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 5. Grants Payable (Continued)

Grants expected to be paid beyond one year are reflected at the present value of future cash flows using a discount rate of 7 percent.

#### Note 6. Deferred Revenue

Deferred revenue consists of the following at December 31:

|  | 2007             | 2006              |
|--|------------------|-------------------|
| Future-year dues                               | \$ 3,797,310     | \$ 3,373,642      |
| Conference revenues                            | 1,820,700        | 1,970,920         |
| Publication bonus amortized over contract term | -                | 333,332           |
| Advertising for future periods                 | 103,573          | 68,064            |
| Other  | 608,258          | 631,640           |
| Total deferred revenue                         | <u>6,329,841</u> | <u>6,377,598</u>  |
| Current portion of deferred revenue            | (6,329,841)      | (6,210,932)       |
| Long-term portion of deferred revenue          | <u>\$ -</u>      | <u>\$ 166,666</u> |

#### Note 7. Lease Commitment

The Organization leases space in St. Paul and Rochester, Minnesota, and Rochester, New York, with varying terms through 2012.

Total rent expense for these leases, including maintenance and operating costs, for the years ended December 31, 2007 and 2006, totaled \$939,345 and \$866,461, respectively. Future minimum lease payments required under the noncancelable operating leases are as follows at December 31, 2007:

|                              |                     |
|------------------------------|---------------------|
| Years ending December 31:    |                     |
| 2008                         | \$ 403,604          |
| 2009                         | 404,091             |
| 2010                         | 404,593             |
| 2011                         | 403,268             |
| 2012                         | 226,672             |
| Total minimum lease payments | <u>\$ 1,842,228</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 \$526,590 and \$472,947 for the years ended December 31, 2007 and 2006, respectively.

AEI has established a 401(k) 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 \$31,221 and \$32,781 for the years ended December 31, 2007 and 2006, respectively.

## The American Academy of Neurology and Affiliates

### Notes to Consolidated Financial Statements

#### 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 \$25,500 and \$110,200 for the years ended December 31, 2007 and 2006, respectively.

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

|                                 | 2007            | 2006             |
|---------------------------------|-----------------|------------------|
| Deferred tax assets:            |                 |                  |
| Net operating loss              | \$ 6,600        | \$ 4,900         |
| Accrued vacation                | 9,200           | 9,200            |
| Depreciation                    | (5,300)         | -                |
| Charitable contribution         | 18,900          | -                |
| Deferred revenue                | 40,400          | 91,500           |
|                                 | <u>69,800</u>   | <u>105,600</u>   |
| Less: current portion           | (68,450)        | (68,200)         |
| Deferred tax asset — noncurrent | <u>\$ 1,350</u> | <u>\$ 37,400</u> |

The deferred tax asset was calculated using a combined federal and state rate of 39 percent at December 31, 2007 and 2006. Net state operating losses totaling \$105,363 will expire in varying amounts through December 31, 2023.

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

|                               | 2007             | 2006              |
|-------------------------------|------------------|-------------------|
| Current tax (benefit) expense | \$ (10,300)      | \$ 76,200         |
| Deferred tax expense          | 35,800           | 34,000            |
| Total                         | <u>\$ 25,500</u> | <u>\$ 110,200</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, 2007, due to the following:

|   |                  |
|---|------------------|
| Computed "expected" tax expense                     | \$ 44,400        |
| Increase (decrease) in income taxes resulting from: |                  |
| Nondeductible meals and entertainment expenses      | 6,600            |
| State income taxes, net of federal tax benefit      | 6,500            |
| Benefit of income taxed at lower rates              | (32,000)         |
| Income tax expense                                  | <u>\$ 25,500</u> |

## The American Academy of Neurology and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 10. Net Assets

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

|                                       | 2007                | 2006                |
|---------------------------------------|---------------------|---------------------|
| Annual meeting and other programs     | \$ 1,190,725        | \$ 1,083,593        |
| Education, research and award funds   | 1,404,302           | 1,406,149           |
| Clinical research training fellowship | -                   | 111,273             |
| Potamkin Prize                        | 104,296             | 197,917             |
| Other                                 | 147,456             | 86,337              |
|                                       | <u>\$ 2,846,779</u> | <u>\$ 2,885,269</u> |

**Permanently restricted:** Permanently restricted net assets as of December 31 are restricted to investments in perpetuity, the income from which is expendable to support the following activities:

|   | 2007              | 2006              |
|---|-------------------|-------------------|
| Multiple sclerosis endowment                  | \$ 314,980        | \$ 304,417        |
| General research endowment                    | 49,300            | 47,300            |
| Viste patient advocate endowment              | 65,758            | 61,574            |
| Association of Indian Neurologists in America | 50,000            | -                 |
|   | <u>\$ 480,038</u> | <u>\$ 413,291</u> |

#### 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:

|                                       | 2007                | 2006              |
|---------------------------------------|---------------------|-------------------|
| Education, research and awards funds  | \$ 282,874          | \$ 200,613        |
| Potamkin Prize                        | 100,000             | 100,000           |
| Clinical research training fellowship | 111,273             | 78,035            |
| Annual meeting and other programs     | 989,593             | 95,000            |
| Special events                        | -                   | 205,520           |
| Other                                 | 68,880              | -                 |
|                                       | <u>\$ 1,552,620</u> | <u>\$ 679,168</u> |

#### Note 12. Commitments

As of December 31, 2007, the Organization had signed commitments with various hotels for the upcoming annual meetings. At December 31, 2007, the Organization was liable for approximately \$7,600,000, if the Organization cancels the agreements. The Organization has obtained insurance to cover the 2008 annual meeting.

## The American Academy of Neurology and Affiliates

### Notes to Consolidated Financial Statements

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#### **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 the 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 \$196,930 and \$198,620 for 2007 and 2006, respectively, which is net of excess profits to be returned to the Academy of \$65,590 and \$132,368 for 2007 and 2006, respectively.

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 for years ended December 31, 2007 and 2006, was \$85,000 and \$83,000, respectively. As of December 31, 2007 and 2006, the Academy has a receivable in the amount of \$87,800 and \$16,800, respectively, from the Council, which is recorded in other receivables.

# 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

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and changes in net assets or changes in classes of net assets of the individual organizations. The consolidating information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, except for the effects of not reporting changes in net assets by net asset classification in the consolidating statements of activity, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

*McGladrey & Pullen, LLP*

Minneapolis, Minnesota  
July 8, 2008

# The American Academy of Neurology and Affiliates

## Consolidating Statement of Financial Position December 31, 2007

|   | American<br>Academy of<br>Neurology | American<br>Academy of<br>Neurology<br>Foundation | AAN<br>Enterprises,<br>Inc. | AAN<br>Professional<br>Association | Eliminations           | Consolidated         |
|---|-------------------------------------|---|-----------------------------|------------------------------------|------------------------|----------------------|
| <b>Assets</b>                                     |                                     |   |                             |                                    |                        |                      |
| <b>Current Assets</b>                             |                                     |   |                             |                                    |                        |                      |
| Cash and cash equivalents                         | \$ 5,971,428                        | \$ 2,930,051                                      | \$ 1,409,274                | \$ 1,631,433                       | \$ -                   | \$ 11,942,186        |
| Royalty receivable                                | 2,116,700                           | -   | -                           | -                                  | -                      | 2,116,700            |
| Contributions receivable, net                     | -                                   | 1,401,834   | -                           | -                                  | (615,000)              | 786,834              |
| Accounts receivable, net                          | 66,001                              | -   | 1,709,064                   | -                                  | (14,500)               | 1,760,565            |
| Intercompany receivable                           | 1,476,444                           | -   | -                           | -                                  | (1,476,444)            | -                    |
| Due from affiliate                                | 88,081                              | -   | -                           | -                                  | -                      | 88,081               |
| Inventory   | 41,452                              | -   | 53,600                      | -                                  | -                      | 95,052               |
| Other receivables                                 | 2,811                               | -   | -                           | -                                  | -                      | 2,811                |
| Prepaid expenses and other                        | 443,107                             | 2,141   | 69,433                      | 102,245                            | -                      | 616,926              |
| Deferred income tax                               | -                                   | -   | 68,450                      | -                                  | -                      | 68,450               |
| <b>Total current assets</b>                       | <b>10,206,024</b>                   | <b>4,334,026</b>                                  | <b>3,309,821</b>            | <b>1,733,678</b>                   | <b>(2,105,944)</b>     | <b>17,477,605</b>    |
| Property and Equipment, net                       | 567,736                             | -   | 84,395                      | -                                  | -                      | 652,131              |
| <b>Other Long-Term Assets</b>                     |                                     |   |                             |                                    |                        |                      |
| Investments                                       | 25,601,073                          | 2,169,360   | -                           | -                                  | -                      | 27,770,433           |
| Investment in subsidiary                          | 2,806,927                           | -   | -                           | -                                  | (2,806,927)            | -                    |
| Interest in net assets of the Foundation          | 6,415,018                           | -   | -                           | -                                  | (6,415,018)            | -                    |
| Contributions receivable                          | -                                   | 1,622,090   | -                           | -                                  | (1,622,090)            | -                    |
| Deferred income tax, net of current portion       | -                                   | -   | 1,350                       | -                                  | -                      | 1,350                |
| <b>Total other long-term assets</b>               | <b>34,823,018</b>                   | <b>3,791,450</b>                                  | <b>1,350</b>                | <b>-</b>                           | <b>(10,844,035)</b>    | <b>27,771,783</b>    |
| <b>Total assets</b>                               | <b>\$ 45,596,778</b>                | <b>\$ 8,125,476</b>                               | <b>\$ 3,395,566</b>         | <b>\$ 1,733,678</b>                | <b>\$ (12,949,979)</b> | <b>\$ 45,901,519</b> |
| <b>Liabilities and Net Assets (Deficit)</b>       |                                     |   |                             |                                    |                        |                      |
| <b>Current Liabilities</b>                        |                                     |   |                             |                                    |                        |                      |
| Accounts payable                                  | \$ 871,964                          | \$ 22,763   | \$ 150,744                  | \$ -                               | \$ (14,500)            | \$ 1,030,971         |
| Grants payable                                    | 615,000                             | 751,407   | -                           | -                                  | (615,000)              | 751,407              |
| Intercompany payable                              | -                                   | 720,038   | 212,330                     | 544,076                            | (1,476,444)            | -                    |
| Deferred revenue                                  | 4,854,186                           | 41,250  | 103,573                     | 1,330,832                          | -                      | 6,329,841            |
| Accrued expenses                                  | 1,221,412                           | -   | 121,992                     | -                                  | -                      | 1,343,404            |
| <b>Total current liabilities</b>                  | <b>7,562,562</b>                    | <b>1,535,458</b>                                  | <b>588,639</b>              | <b>1,874,908</b>                   | <b>(2,105,944)</b>     | <b>9,455,623</b>     |
| <b>Long-Term Liabilities</b>                      |                                     |   |                             |                                    |                        |                      |
| Deferred revenue                                  | -                                   | -   | -                           | -                                  | -                      | -                    |
| Intercompany payable                              | -                                   | -   | -                           | -                                  | -                      | -                    |
| Grants payable                                    | 1,622,090                           | 175,000   | -                           | -                                  | (1,622,090)            | 175,000              |
| <b>Total long-term liabilities</b>                | <b>1,622,090</b>                    | <b>175,000</b>                                    | <b>-</b>                    | <b>-</b>                           | <b>(1,622,090)</b>     | <b>175,000</b>       |
| <b>Total liabilities</b>                          | <b>9,184,652</b>                    | <b>1,710,458</b>                                  | <b>588,639</b>              | <b>1,874,908</b>                   | <b>(3,728,034)</b>     | <b>9,630,623</b>     |
| <b>Net Assets (Deficit)</b>                       |                                     |   |                             |                                    |                        |                      |
| Unrestricted                                      | 31,211,213                          | 1,355,270   | -                           | (141,230)                          | 518,826                | 32,944,079           |
| Temporarily restricted                            | 4,720,875                           | 4,579,710   | -                           | -                                  | (6,453,806)            | 2,846,779            |
| Permanently restricted                            | 480,038                             | 480,038   | -                           | -                                  | (480,038)              | 480,038              |
| Stockholder's equity                              | -                                   | -   | 2,806,927                   | -                                  | (2,806,927)            | -                    |
| <b>Total net assets (deficit)</b>                 | <b>36,412,126</b>                   | <b>6,415,018</b>                                  | <b>2,806,927</b>            | <b>(141,230)</b>                   | <b>(9,221,945)</b>     | <b>36,270,896</b>    |
| <b>Total liabilities and net assets (deficit)</b> | <b>\$ 45,596,778</b>                | <b>\$ 8,125,476</b>                               | <b>\$ 3,395,566</b>         | <b>\$ 1,733,678</b>                | <b>\$ (12,949,979)</b> | <b>\$ 45,901,519</b> |

# The American Academy of Neurology and Affiliates

## Consolidating Statement of Activity Year Ended December 31, 2007

|  | American<br>Academy of<br>Neurology | American<br>Academy of<br>Neurology<br>Foundation | AAN<br>Enterprises,<br>Inc. | AAN<br>Professional<br>Association | Eliminations          | Consolidated         |
|--|-------------------------------------|---|-----------------------------|------------------------------------|-----------------------|----------------------|
| <b>Support:</b>                                      |                                     |   |                             |                                    |                       |                      |
| Annual meeting grants and contributions              | \$ -                                | \$ 2,032,294                                      | \$ -                        | \$ 34,159                          | \$ (543,370)          | \$ 1,523,083         |
| Project grants and contributions                     | 2,794,291                           | 5,549,462   | -                           | -                                  | (5,736,846)           | 2,606,907            |
| <b>Total support</b>                                 | <b>2,794,291</b>                    | <b>7,581,756</b>                                  | <b>-</b>                    | <b>34,159</b>                      | <b>(6,280,216)</b>    | <b>4,129,990</b>     |
| <b>Revenue:</b>                                      |                                     |   |                             |                                    |                       |                      |
| Membership   | 5,584,451                           | -   | -                           | -                                  | -                     | 5,584,451            |
| Annual meeting                                       | 8,084,676                           | -   | -                           | -                                  | (56,250)              | 8,028,426            |
| Publications   | 7,251,415                           | -   | 3,446,472                   | -                                  | (219,741)             | 10,478,146           |
| Products and services                                | 605,901                             | -   | 186,822                     | -                                  | (47,000)              | 745,723              |
| Special courses                                      | 1,448,592                           | -   | -                           | -                                  | -                     | 1,448,592            |
| Management fees                                      | 804,479                             | -   | 44,815                      | -                                  | (849,294)             | -                    |
| Investment income — operating                        | 331,326                             | 298,447   | 80,315                      | -                                  | (6,775)               | 703,313              |
| Other  | 126,336                             | -   | 52,465                      | -                                  | (14,500)              | 164,301              |
| <b>Total revenue</b>                                 | <b>24,237,176</b>                   | <b>298,447</b>                                    | <b>3,810,889</b>            | <b>-</b>                           | <b>(1,193,560)</b>    | <b>27,152,952</b>    |
| <b>Total support and revenue</b>                     | <b>27,031,467</b>                   | <b>7,880,203</b>                                  | <b>3,810,889</b>            | <b>34,159</b>                      | <b>(7,473,776)</b>    | <b>31,282,942</b>    |
| <b>Expenses:</b>                                     |                                     |   |                             |                                    |                       |                      |
| <b>Program services:</b>                             |                                     |   |                             |                                    |                       |                      |
| Membership   | 3,141,385                           | -   | -                           | -                                  | -                     | 3,141,385            |
| Annual meeting                                       | 6,876,111                           | -   | -                           | -                                  | -                     | 6,876,111            |
| Projects   | 3,089,979                           | -   | -                           | -                                  | -                     | 3,089,979            |
| Publications   | 480,084                             | -   | 2,161,732                   | -                                  | (270,000)             | 2,371,816            |
| Committees   | 2,768,815                           | -   | 94,505                      | 38,594                             | -                     | 2,901,914            |
| Products and services                                | 2,451,158                           | -   | -                           | -                                  | -                     | 2,451,158            |
| Special courses                                      | 1,659,591                           | -   | -                           | -                                  | -                     | 1,659,591            |
| Grants and awards                                    | 2,229,590                           | 4,357,281   | -                           | -                                  | (5,184,751)           | 1,402,120            |
| <b>Total program services</b>                        | <b>22,696,713</b>                   | <b>4,357,281</b>                                  | <b>2,256,237</b>            | <b>38,594</b>                      | <b>(5,454,751)</b>    | <b>23,894,074</b>    |
| <b>Support services:</b>                             |                                     |   |                             |                                    |                       |                      |
| Member development and fund raising                  | 711,102                             | 508,955   | -                           | -                                  | (543,370)             | 676,687              |
| General and administrative                           | 2,868,103                           | 467,445   | 1,449,526                   | 136,795                            | (1,475,655)           | 3,446,214            |
| <b>Total support services</b>                        | <b>3,579,205</b>                    | <b>976,400</b>                                    | <b>1,449,526</b>            | <b>136,795</b>                     | <b>(2,019,025)</b>    | <b>4,122,901</b>     |
| <b>Total expenses</b>                                | <b>26,275,918</b>                   | <b>5,333,681</b>                                  | <b>3,705,763</b>            | <b>175,389</b>                     | <b>(7,473,776)</b>    | <b>28,016,975</b>    |
| <b>Change in net assets</b>                          | <b>755,549</b>                      | <b>2,546,522</b>                                  | <b>105,126</b>              | <b>(141,230)</b>                   | <b>-</b>              | <b>3,265,967</b>     |
| <b>Nonoperating income:</b>                          |                                     |   |                             |                                    |                       |                      |
| Investment income                                    | 2,023,247                           | -   | -                           | -                                  | -                     | 2,023,247            |
| Unrealized gain from AEI                             | 105,126                             | -   | -                           | -                                  | (105,126)             | -                    |
| <b>Total nonoperating income</b>                     | <b>2,128,373</b>                    | <b>-</b>  | <b>-</b>                    | <b>-</b>                           | <b>(105,126)</b>      | <b>2,023,247</b>     |
| Increase in interest in net assets of the Foundation | 2,546,522                           | -   | -                           | -                                  | (2,546,522)           | -                    |
| <b>Total change in net assets</b>                    | <b>5,430,444</b>                    | <b>2,546,522</b>                                  | <b>105,126</b>              | <b>(141,230)</b>                   | <b>(2,651,648)</b>    | <b>5,289,214</b>     |
| Net assets, beginning of year                        | 30,981,682                          | 3,868,496   | 2,701,801                   | -                                  | (6,570,297)           | 30,981,682           |
| Net assets, end of year                              | <u>\$ 36,412,126</u>                | <u>\$ 6,415,018</u>                               | <u>\$ 2,806,927</u>         | <u>\$ (141,230)</u>                | <u>\$ (9,221,945)</u> | <u>\$ 36,270,896</u> |

# The American Academy of Neurology and Affiliates

## Consolidating Statement of Financial Position December 31, 2006

| Assets                                   | American<br>Academy of<br>Neurology | American<br>Academy of<br>Neurology<br>Foundation | AAN<br>Enterprises,<br>Inc. | Eliminations          | Consolidated         |
|--|-------------------------------------|---|-----------------------------|-----------------------|----------------------|
| <b>Current Assets</b>                    |                                     |   |                             |                       |                      |
| 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               |
| <b>Total current assets</b>              | <b>8,616,945</b>                    | <b>4,336,356</b>                                  | <b>3,292,944</b>            | <b>(2,057,844)</b>    | <b>14,188,401</b>    |
| Property and Equipment, net              | 350,553                             | -   | 111,554                     | -                     | 462,107              |
| <b>Other Long-Term Assets</b>            |                                     |   |                             |                       |                      |
| 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               |
| <b>Total other long-term assets</b>      | <b>30,148,123</b>                   | <b>2,231,820</b>                                  | <b>37,400</b>               | <b>(6,647,847)</b>    | <b>25,769,496</b>    |
| <b>Total assets</b>                      | <b>\$ 39,115,621</b>                | <b>\$ 6,568,176</b>                               | <b>\$ 3,441,898</b>         | <b>\$ (8,705,691)</b> | <b>\$ 40,420,004</b> |
| <b>Liabilities and Net Assets</b>        |                                     |   |                             |                       |                      |
| <b>Current Liabilities</b>               |                                     |   |                             |                       |                      |
| 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            |
| <b>Total current liabilities</b>         | <b>7,973,056</b>                    | <b>2,479,807</b>                                  | <b>656,764</b>              | <b>(2,057,844)</b>    | <b>9,051,783</b>     |
| <b>Long-Term Liabilities</b>             |                                     |   |                             |                       |                      |
| Deferred revenue                         | 83,333                              | -   | 83,333                      | -                     | 166,666              |
| Intercompany payable                     | -                                   | -   | -                           | -                     | -                    |
| Grants payable                           | 77,550                              | 219,873   | -                           | (77,550)              | 219,873              |
| <b>Total long-term liabilities</b>       | <b>160,883</b>                      | <b>219,873</b>                                    | <b>83,333</b>               | <b>(77,550)</b>       | <b>386,539</b>       |
| <b>Total liabilities</b>                 | <b>8,133,939</b>                    | <b>2,699,680</b>                                  | <b>740,097</b>              | <b>(2,135,394)</b>    | <b>9,438,322</b>     |
| <b>Net Assets</b>                        |                                     |   |                             |                       |                      |
| 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)           | -                    |
| <b>Total net assets</b>                  | <b>30,981,682</b>                   | <b>3,868,496</b>                                  | <b>2,701,801</b>            | <b>(6,570,297)</b>    | <b>30,981,682</b>    |
| <b>Total liabilities and net assets</b>  | <b>\$ 39,115,621</b>                | <b>\$ 6,568,176</b>                               | <b>\$ 3,441,898</b>         | <b>\$ (8,705,691)</b> | <b>\$ 40,420,004</b> |

# The American Academy of Neurology and Affiliates

## Consolidating Statement of Activity Year Ended December 31, 2006

|  | American<br>Academy of<br>Neurology | American<br>Academy of<br>Neurology<br>Foundation | AAN<br>Enterprises,<br>Inc. | Eliminations       | Consolidated      |
|--|-------------------------------------|---|-----------------------------|--------------------|-------------------|
| <b>Support:</b>                                      |                                     |   |                             |                    |                   |
| 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         |
| <b>Total support</b>                                 | <b>1,380,731</b>                    | <b>4,712,825</b>                                  | <b>-</b>                    | <b>(2,910,872)</b> | <b>3,182,684</b>  |
| <b>Revenue:</b>                                      |                                     |   |                             |                    |                   |
| 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           |
| <b>Total revenue</b>                                 | <b>22,028,759</b>                   | <b>259,935</b>                                    | <b>3,376,955</b>            | <b>(958,212)</b>   | <b>24,707,437</b> |
| <b>Total support and revenue</b>                     | <b>23,409,490</b>                   | <b>4,972,760</b>                                  | <b>3,376,955</b>            | <b>(3,869,084)</b> | <b>27,890,121</b> |
| <b>Expenses:</b>                                     |                                     |   |                             |                    |                   |
| <b>Program services:</b>                             |                                     |   |                             |                    |                   |
| Membership   | 2,762,973                           | -   | -                           | -                  | 2,762,973         |
| Annual meeting                                       | 6,489,030                           | -   | -                           | -                  | 6,489,030         |
| Projects   | 3,002,055                           | -   | -                           | -                  | 3,002,055         |
| Publications   | 351,517                             | -   | 1,511,094                   | -                  | 1,862,611         |
| Committees   | 2,289,819                           | -   | -                           | -                  | 2,289,819         |
| Products and services                                | 1,939,603                           | -   | -                           | -                  | 1,939,603         |
| Special courses                                      | 1,579,544                           | -   | -                           | -                  | 1,579,544         |
| Grants and awards                                    | -                                   | 2,516,809   | -                           | (1,646,334)        | 870,475           |
| <b>Total program services</b>                        | <b>18,414,541</b>                   | <b>2,516,809</b>                                  | <b>1,511,094</b>            | <b>(1,646,334)</b> | <b>20,796,110</b> |
| <b>Support services:</b>                             |                                     |   |                             |                    |                   |
| Member development and fund raising                  | 400,682                             | 566,984   | -                           | (295,638)          | 672,028           |
| General and administrative                           | 3,565,189                           | 460,091   | 1,453,732                   | (1,927,112)        | 3,551,900         |
| <b>Total support services</b>                        | <b>3,965,871</b>                    | <b>1,027,075</b>                                  | <b>1,453,732</b>            | <b>(2,222,750)</b> | <b>4,223,928</b>  |
| <b>Total expenses</b>                                | <b>22,380,412</b>                   | <b>3,543,884</b>                                  | <b>2,964,826</b>            | <b>(3,869,084)</b> | <b>25,020,038</b> |
| <b>Operating change in net assets</b>                | <b>1,029,078</b>                    | <b>1,428,876</b>                                  | <b>412,129</b>              | <b>-</b>           | <b>2,870,083</b>  |
| <b>Nonoperating income:</b>                          |                                     |   |                             |                    |                   |
| Investment income                                    | 2,305,124                           | -   | -                           | -                  | 2,305,124         |
| Unrealized gain from AEI                             | 412,129                             | -   | -                           | (412,129)          | -                 |
| <b>Total nonoperating income</b>                     | <b>2,717,253</b>                    | <b>-</b>  | <b>-</b>                    | <b>(412,129)</b>   | <b>2,305,124</b>  |
| Increase in interest in net assets of the Foundation | 1,428,876                           | -   | -                           | (1,428,876)        | -                 |
| <b>Total change in net assets</b>                    | <b>5,175,207</b>                    | <b>1,428,876</b>                                  | <b>412,129</b>              | <b>(1,841,005)</b> | <b>5,175,207</b>  |
| 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     |