

McGladrey & Pullen

Certified Public Accountants

American Academy of Neurology Foundation

Financial Report
December 31, 2008

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
American Academy of Neurology Foundation

We have audited the accompanying statements of financial position of the American Academy of Neurology Foundation as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Academy of Neurology Foundation as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Minneapolis, Minnesota
May 29, 2009

American Academy of Neurology Foundation

Statements of Financial Position

December 31, 2008 and 2007

Assets	2008	2007
Current Assets		
Cash and cash equivalents	\$ 3,248,675	\$ 2,930,051
Contributions receivable, net (Note 2)	1,376,948	1,401,834
Other receivables	55,000	-
Prepaid expenses and other	1,632	2,141
Total current assets	<u>4,682,255</u>	<u>4,334,026</u>
Long-Term Assets		
Contributions receivable, net (Note 2)	920,597	1,622,090
Other receivables	55,000	-
Investments	1,600,418	2,169,360
Total long-term assets	<u>2,576,015</u>	<u>3,791,450</u>
Total assets	<u><u>\$ 7,258,270</u></u>	<u><u>\$ 8,125,476</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 21,789	\$ 22,763
Grants payable (Note 3)	1,207,500	751,407
Due to affiliate (Note 4)	696,154	720,038
Deferred revenue	195,890	41,250
Total current liabilities	<u>2,121,333</u>	<u>1,535,458</u>
Long-Term Grants Payable (Note 3)	508,359	175,000
Total liabilities	<u>2,629,692</u>	<u>1,710,458</u>
Net Assets (Notes 5, 6 and 7)		
Unrestricted	1,485,339	1,355,270
Temporarily restricted	2,584,201	4,579,710
Permanently restricted	559,038	480,038
Total net assets	<u>4,628,578</u>	<u>6,415,018</u>
Total liabilities and net assets	<u><u>\$ 7,258,270</u></u>	<u><u>\$ 8,125,476</u></u>

See Notes to Financial Statements.

American Academy of Neurology Foundation

Statements of Activities

Years Ended December 31, 2008 and 2007

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue and support:				
Annual meeting grants and contributions	\$ 1,707,443	\$ 220,000	\$ -	\$ 1,927,443
Project grants and contributions	828,756	593,456	79,000	1,501,212
Dues	453,680	-	-	453,680
Service fees (Note 4)	785,954	-	-	785,954
Special event income, net of direct benefit expense of \$125,249 and \$261,504 in 2008 and 2007, respectively	3,779	-	-	3,779
Investment income (loss)	(276,277)	(239,117)	-	(515,394)
Net assets released from restrictions	2,569,848	(2,569,848)	-	-
Total revenue and support	6,073,183	(1,995,509)	79,000	4,156,674
Expenses:				
Grants	4,692,959	-	-	4,692,959
Other program services	518,717	-	-	518,717
General and administrative	337,885	-	-	337,885
Fund raising, excluding direct benefit	393,553	-	-	393,553
Total expense	5,943,114	-	-	5,943,114
Increase (decrease) in net assets	130,069	(1,995,509)	79,000	(1,786,440)
Net assets — beginning of year	1,355,270	4,579,710	480,038	6,415,018
Net assets — end of year	\$ 1,485,339	\$ 2,584,201	\$ 559,038	\$ 4,628,578

See Notes to Financial Statements.

2007

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 2,120,274	\$ 1,098,500	\$ -	\$ 3,218,774
495,171	2,148,014	66,747	2,709,932
301,250	-	-	301,250
900,715	-	-	900,715
189,581	-	-	189,581
156,736	141,711	-	298,447
1,480,153	(1,480,153)	-	-
5,643,880	1,908,072	66,747	7,618,699
3,947,455	-	-	3,947,455
267,335	-	-	267,335
317,709	-	-	317,709
539,678	-	-	539,678
5,072,177	-	-	5,072,177
571,703	1,908,072	66,747	2,546,522
783,567	2,671,638	413,291	3,868,496
\$ 1,355,270	\$ 4,579,710	\$ 480,038	\$ 6,415,018

American Academy of Neurology Foundation

Statements of Cash Flows

Years Ended December 31, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Change in net assets	\$ (1,786,440)	\$ 2,546,522
Permanently restricted contributions	(79,000)	(66,747)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Unrealized (gain) loss on investments	568,138	(171,523)
Changes in assets and liabilities:		
Contributions receivable	726,379	(1,835,622)
Prepaid expenses and other	509	993
Other receivables	(110,000)	-
Accounts payable	(974)	22,475
Grants payable	789,452	(140,498)
Deferred revenue	154,640	41,250
Due to affiliate	(23,884)	(912,449)
Net cash provided by (used in) operating activities	238,820	(515,599)
Cash Flows From Investing Activities		
Proceeds from sale of investments	804	45,983
Cash Flows From Financing Activities		
Permanently restricted contributions received	79,000	122,747
Net increase (decrease) in cash and cash equivalents	318,624	(346,869)
Cash and Cash Equivalents — beginning of year	2,930,051	3,276,920
Cash and Cash Equivalents — end of year	\$ 3,248,675	\$ 2,930,051

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 the passage of time.

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. Cash and cash equivalents are recorded at cost, which approximates fair value. The Foundation has a sweep account that is invested nightly in U.S. Treasuries. At times, cash balances may exceed federally insured limits.

Contributions receivable: Contributions receivable are initially recorded at fair value and subsequently recorded at net realizable value. Accordingly, the Foundation accounts for uncollectible accounts by the reserve method based on historical information and management judgment.

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 consist of 50 percent equity funds, 43 percent bond funds and 7 percent hedge funds. Investment income or loss (including unrealized gains and losses, interest and dividends) is included in investment income in the statements of activities. In addition, the Academy's investment pool includes limited partnerships that are diversified funds of hedge funds, which are reported at the estimated fair value of the Academy'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. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amount reported in the financial statements.

American Academy of Neurology Foundation

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Effective January 1, 2008, the Foundation adopted SFAS No. 157, *Fair Value Measurements*, for its financial assets and liabilities. SFAS No. 157 provides a framework for measuring fair value under generally accepted accounting principles. SFAS No. 157 applies to all financial instruments that are being measured and reported on a fair value basis. SFAS No. 157 requires new disclosure that establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The Foundation adopted this standard for its financial assets and liabilities. The adoption of this standard had no effect on the financial statements.

The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The Foundation's investments are 7.81 percent of the Academy's pooled investments and are divided among the three levels as follows: 86.4 percent in Level 1, 7.0 percent in Level 2 and 6.6 percent in Level 3.

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.

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 or are met 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.

Dues: Dues are recognized as revenue over the period to which the dues relate. Dues represent services rendered on a calendar year basis. Dues collected in advance are recorded as deferred revenue until they are earned.

Service fees: Service fees represent a 15 percent fee the Foundation earns from the Academy for soliciting restricted grants and exhibit fees in support of the AAN 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.

American Academy of Neurology Foundation

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 charged directly to programs and support services where possible, and the remaining expenses are allocated based on actual time spent on programs and support services.

Accounting standards not yet adopted: In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure and transition.

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Foundation has elected this deferral and accordingly will be required to adopt FIN 48 in its 2009 annual financial statements. Prior to adoption of FIN 48, the Foundation will continue to evaluate its uncertain tax positions and related income tax contingencies under SFAS No. 5, *Accounting for Contingencies*. SFAS No. 5 requires the Foundation to accrue for losses it believes are probable and can be reasonably estimated. Management is currently assessing the impact of FIN 48 on its financial position and results of operations and has not yet determined if the adoption of FIN 48 will have a material effect on its financial statements.

In February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, which permits a one-year deferral until January 1, 2009, for the implementation of SFAS No. 157 with regard to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of the remaining provisions of SFAS No. 157 is not expected to have a material impact on the Foundation's financial position, results of operations or cash flows.

Reclassifications: Certain amounts in the 2007 statements of activities have been reclassified to be consistent with the presentation in 2008. These reclassifications had no impact on changes in net assets as previously reported.

American Academy of Neurology Foundation

Notes to Financial Statements

Note 2. Contributions Receivable

Contributions receivable at December 31 are as follows:

	2008	2007
Less than one year	\$ 1,379,748	\$ 1,400,501
One to five years	957,165	1,705,833
	<u>2,336,913</u>	<u>3,106,334</u>
Less:		
Discount to present value	(36,568)	(81,410)
Allowance for doubtful accounts	(2,800)	(1,000)
Net contributions receivable	<u>\$ 2,297,545</u>	<u>\$ 3,023,924</u>

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

	2008	2007
Current	\$ 1,376,948	\$ 1,401,834
Long-term	920,597	1,622,090
	<u>\$ 2,297,545</u>	<u>\$ 3,023,924</u>

Contributions expected to be received beyond one year are reflected at the present value of future cash flows at the date of donation using a discount rate of 0.76 percent to 3 percent.

Note 3. Grants Payable

Grants payable include the following at December 31:

	2008	2007
Amounts due:		
One year or less	\$ 1,207,500	\$ 751,407
One to five years	572,500	180,500
Discount to present value	(9,141)	(5,500)
Net grants payable	<u>\$ 1,770,859</u>	<u>\$ 926,407</u>
Current portion of grants payable	\$ 1,207,500	\$ 751,407
Long-term portion of grants payable	508,359	175,000
Net grants payable	<u>\$ 1,715,859</u>	<u>\$ 926,407</u>

Grants expected to be paid beyond one year are reflected at the present value of future cash flows using a discount rate of approximately 1 percent to 3 percent.

American Academy of Neurology Foundation

Notes to Financial Statements

Note 3. Grant Payable (Continued)

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

	2008		2007	
	Amount	Percent	Amount	Percent
Support services expense:				
General and administrative	\$ 337,885	9.86	\$ 317,709	5.36
Fund raising	393,553	11.48	539,678	9.10
Total support services	<u>\$ 731,438</u>	<u>21.34</u>	<u>\$ 857,387</u>	<u>14.46</u>
Total funds raised	<u>\$ 3,428,655</u>		<u>\$ 5,928,706</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 \$424,000 and \$390,000 for the years ended December 31, 2008 and 2007, respectively.

The Foundation earned service fees from the Academy for raising restricted grant funds and for soliciting and collecting fees for exhibits for the annual meeting as follows:

	Years Ended December 31	
	2008	2007
Exhibits	\$ 702,596	\$ 845,290
Projects	83,358	55,425
	<u>\$ 785,954</u>	<u>\$ 900,715</u>

The Foundation incurred \$114,000 and \$56,250 in expense for the years ended December 31, 2008 and 2007, respectively, paid to the Academy to manage Corporate Therapeutic update sessions presented at the annual meeting.

The Academy contributed approximately \$520,000 and \$2,311,000 for future Clinical Research Training Fellowships for the years ended December 31, 2008 and 2007, respectively. These revenues were recorded as follows:

	2008	2007
Unrestricted	\$ 520,000	\$ 390,000
Restricted	-	1,921,000
	<u>\$ 520,000</u>	<u>\$ 2,311,000</u>

American Academy of Neurology Foundation

Notes to Financial Statements

Note 5. Net Assets

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

	2008	2007
Funds held for Academy projects	\$ 397,500	\$ 1,320,725
Education, research and award funds	1,094,896	1,280,593
Clinical Research Training Fellowships	988,069	1,874,096
Potamkin Prize	103,736	104,296
Total	<u>\$ 2,584,201</u>	<u>\$ 4,579,710</u>

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

	2008	2007
Multiple sclerosis endowment	\$ 320,230	\$ 314,980
General research endowment	49,300	49,300
Viste patient advocate endowment	66,208	65,758
Association of Indian Neurologists in America	50,000	50,000
Wolf Graham endowment	50,000	-
Sleep endowment	23,300	-
Total	<u>\$ 559,038</u>	<u>\$ 480,038</u>

Investment income (loss) on permanently restricted funds is included in unrestricted or temporarily restricted net assets, as appropriate. Temporarily restricted earnings are used in accordance with donor intentions.

Note 6. Assets Released From Restriction

Net assets were released from donor restrictions during the years ended December 31 by incurring expenses satisfying the restricted purposes specified by donors.

	2008	2007
Education, research and awards funds	\$ 134,447	\$ 279,287
Potamkin Prize	100,000	100,000
Clinical Research Training Fellowship	1,064,676	111,273
Funds held for Academy projects	1,270,725	989,593
Total	<u>\$ 2,569,848</u>	<u>\$ 1,480,153</u>

American Academy of Neurology Foundation

Notes to Financial Statements

Note 7. Endowment

In August 2008, the FASB issued FASB Staff Position (FSP) FAS 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds. The FSP provided guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). It also established disclosure requirements for both donor-restricted and board-designated endowment funds. The state of Minnesota's version of UPMIFA became effective on August 1, 2008. The Foundation adopted FSP FAS 117-1 during 2008. The adoption of FSP FAS 117-1 did not have an impact on the beginning net asset classification.

The Foundation's donor-restricted endowment consists of six individual funds established to support research and awards and, as required by generally accepted accounting principles, net assets associated with those endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted UPMIFA as requiring the presentation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors when making a determination to appropriate or accumulate donor-restricted funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

American Academy of Neurology Foundation

Notes to Financial Statements

Note 7. Endowment (Continued)

Changes in endowment net assets for the fiscal years ended December 31, 2008 and 2007, consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Balance, December 31, 2006	\$ 41,530	\$ 413,291	\$ 454,821
Investment income (loss)	36,652	-	36,652
Contributions	-	66,747	66,747
Appropriation of endowment funds	(1,000)	-	(1,000)
Balance, December 31, 2007	77,182	480,038	557,220
Investment income (loss)	(71,089)	-	(71,089)
Contributions	-	79,000	79,000
Appropriation of endowment funds	(2,000)	-	(2,000)
Balance, December 31, 2008	\$ 4,093	\$ 559,038	\$ 563,131

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 8 percent over the long term. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objective within prudent risk constraints.

The Foundation has a policy of appropriating for distribution each year 4.5 percent of its endowment fund's moving average fair value over the prior 12 months through the calendar year-end preceding fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of the long-term rate of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity for a specific term as well as to provide additional real growth through new gifts and investment return. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2008 or 2007.