American Academy of Audiology and Affiliate

Consolidated Financial Statements
and Independent Auditors' Report

June 30, 2011 and 2010

ROGERS & COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
American Academy of Audiology and Affiliate

We have audited the accompanying consolidated statement of financial position of the American Academy of Audiology and its affiliate (collectively, "the Organization") as of June 30, 2011, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Organization as of June 30, 2010, were audited by other auditors whose report, dated February 25, 2011, expressed an unqualified opinion on those statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating and other supplemental information for the year ended June 30, 2011, on pages 17-19, is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual entities. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2011 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2011 consolidated financial statements as a whole.

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& COMPANY

The summarized comparative and other supplemental information for the year ended June 30, 2010 was subjected to auditing procedures applied in the audit of the consolidated financial statements of other independent auditors whose report, dated February 25, 2011, indicated that such information is fairly stated in all material respects to the consolidated statements taken as a whole.

Rogers + Company PLLC

Vienna, Virginia
March 2, 2012

American Academy of Audiology and Affiliate

Consolidated Statements of Financial Position
June 30, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	$ 889,253	$ 352,442
Accounts receivable and accrued revenue	58,841	166,748
Inventory	7,474	40,472
Prepaid expenses	135,791	78,129
Pledges receivable	97,000	136,000
Investments	3,469,164	3,086,733
Deferred compensation investments	44,123	15,115
Property and equipment, net	1,057,412	1,219,931
Security deposit	16,018	16,018
Total assets	$ 5,775,076	$ 5,111,588
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 534,710	$ 302,845
Deferred revenue	2,162,349	1,756,795
Note payable	-	725,365
Deferred lease incentive	13,461	25,561
Deferred compensation obligation	44,123	15,115
Total liabilities	2,754,643	2,825,681
Net Assets		
Unrestricted:		
Undesignated	2,504,990	1,954,403
Board-designated	194,267	121,767
Total unrestricted net assets	2,699,257	2,076,170
Temporarily restricted	321,176	209,737
Total net assets	3,020,433	2,285,907
Total liabilities and net assets	$ 5,775,076	$ 5,111,588

See accompanying notes.

American Academy of Audiology and Affiliate

Consolidated Statements of Activities
For the Years Ended June 30, 2011 and 2010

	2011	2010
Unrestricted Revenue and Support		
Membership	$ 2,626,821	$ 2,430,376
AudiologyNOW!	3,601,777	3,410,635
Continuing education	273,095	294,362
Communications	485,855	497,405
Board certification - ABA	160,432	200,301
Advocacy	3,605	7,107
Contributions	60,562	101,022
Special events	58,411	74,682
Interest, dividends, and capital gain distributions	93,538	105,005
Other income	1,432	4,573
Released from restrictions	62,119	126,381
Total unrestricted revenue and support	7,427,647	7,251,849
Expenses		
Program services:		
Membership	519,629	427,776
AudiologyNOW!	1,973,451	2,157,073
Continuing education	500,061	581,578
Communications	1,223,556	1,235,475
Board certification - ABA	457,296	268,430
Advocacy	945,991	913,447
Committees and task forces	140,692	227,823
American Academy of Audiology Foundation	132,158	206,973
Total program services	5,892,834	6,018,575
Supporting services:		
Administrative expenses	1,223,854	1,152,650
Fundraising	7,371	23,874
Cost of benefits provided to donors	46,029	47,065
Total supporting services	1,277,254	1,223,589
Total expenses	7,170,088	7,242,164
Change in unrestricted net assets from operations	257,559	9,685
Realized and unrealized gains on investments	365,529	160,344
Total change in unrestricted net assets	623,088	170,029
Change in temporarily restricted net assets		
Contributions	159,130	63,085
Special events	14,427	-
Net assets released from restrictions	(62,119)	(126,381)
Total change in temporarily restricted net assets	111,438	(63,296)
Change in Net Assets	734,526	106,733
Net Assets, beginning of year	2,285,907	2,179,174
Net Assets, end of year	$ 3,020,433	$ 2,285,907

See accompanying notes.

American Academy of Audiology and Affiliate

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Change in net assets	$ 734,526	$ 106,733
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	165,938	164,301
Net realized and unrealized gains on investments	(365,529)	(160,344)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable and accrued revenue, net	107,907	(74,491)
Inventory	32,998	8,566
Prepaid expenses	(57,662)	43,399
Pledges receivable	39,000	-
Increase (decrease) in:		
Accounts payable and accrued expenses	231,865	(211,807)
Deferred revenue	405,554	(278,192)
Deferred lease incentive	(12,100)	(12,100)
Net cash provided by (used in) operating activities	1,282,497	(413,935)
Cash Flows from Investing Activities		
Proceeds from sales of investments	1,075,251	724,116
Purchases of investments	(1,092,153)	(208,098)
Purchases of property and equipment	(3,419)	(29,294)
Net cash (used in) provided by investing activities	(20,321)	486,724
Cash Flows from Financing Activities		
Repayment of note payable	(725,365)	(13,068)
Net cash used in financing activities	(725,365)	(13,068)
Net Increase in Cash and Cash Equivalents	536,811	59,721
Cash and Cash Equivalents, beginning of year	352,442	292,721
Cash and Cash Equivalents, end of year	$ 889,253	$ 352,442
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 55,059	$ 51,992

See accompanying notes.

1. Nature of Operations

The American Academy of Audiology, Inc. ("the Academy") is a national not-for-profit professional organization made up of individuals dedicated to providing quality hearing care to the public. The Academy promotes quality hearing and balance care by advancing the profession of audiology through leadership, advocacy, education, public awareness, and support of research. Established in 1988, the Academy is incorporated under the laws of Delaware and has its headquarters in Reston, Virginia.

The American Academy of Audiology Foundation ("the Foundation"), founded in 1990, is a charitable not-for-profit organized to raise funds and support programs of excellence in education, promising research and public awareness in audiology and hearing science. The Foundation is incorporated under the laws of Tennessee and is headquartered with the Academy.

The American Board of Audiology (ABA), formed in 1998, functions as an autonomous credentialing body within the legal corporate structure of the Academy in a self-directed manner. ABA has unique certification policies, procedures, and operational decisions developed by the ABA's Board of Governors dedicated to enhancing audiologic services to the public by promulgating universally recognized standards in professional practice. The ABA encourages audiologists to exceed these prescribed standards, thereby promoting a high level of professional development and ethical practice.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Academy has a controlling financial interest in the Foundation. Accordingly, the accompanying consolidated financial statements include the accounts of the Academy and the Foundation, which are referred to collectively as "the Organization" throughout the accompanying footnotes. All significant inter-company balances and transactions have been eliminated in the consolidated financial statements.

Basis of Accounting and Presentation

The consolidated financial statements are prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles for not-for-profit organizations. Revenue is recognized when earned and expense when the obligation is incurred.

2. Summary of Significant Accounting Policies (continued)

Classification of Net Assets

Net assets are reported based on the presence or absence of donor-imposed restrictions.

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support of the Organization's general operations. Included in these net assets are $194,267 and $121,767 at June 30, 2011 and 2010, respectively, of Board-designated amounts principally for the National Exam.

- *Temporarily restricted net assets* represent funds subject to donor-imposed restrictions that are met either by actions of the Organization or through the passage of time. Temporarily restricted net assets were $321,176 and $209,737 at June 30, 2011 and 2010, respectively.

Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, the Organization considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase.

Accounts Receivable

Accounts receivable consist primarily of advertising and ABA certifications. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. The provision for doubtful accounts, based on management's evaluation of the collectability of receivables, was $23,501 and $30,000 at June 30, 2011 and 2010, respectively.

Inventory

Inventory consists of publications, brochures, and other merchandise, and is stated at the lower of cost or market, using the first in, first out method of inventory valuation.

Investments

Investments are reflected at fair value based on quoted market prices. Realized and unrealized gains and losses, interest, dividends, and capital gains are recognized in the consolidated statements of activities.

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment acquisitions totaling $1,000 or more with a projected useful life exceeding one year are capitalized and recorded at cost. Depreciation is computed using the straight-line method over the assets useful lives, which range from three to seven years. Building and building improvements are depreciated using the straight-line method over 30 years. Repair and maintenance costs are expensed as incurred.

Revenue Recognition

Membership dues revenue is recognized ratably over the applicable dues or subscription period, which is on a calendar year-basis. Membership dues received that are applicable to future periods are included in deferred revenue in the accompanying consolidated statements of financial position. At June 30, 2011 and 2010, deferred revenue related to membership dues totaled $1,205,593 and $1,167,459, respectively.

Revenue from AudiologyNOW! registrations and exhibitor fees are recognized as earned in the period which the event takes place. Amounts received in advance are reflected as deferred revenue in the accompanying consolidated statements of financial position. At June 30, 2011 and 2010, deferred revenue related to exhibitor fees totaled $813,752 and $451,316, respectively.

All grants and contributions are considered to be available for unrestricted use unless specifically restricted by the donors. The Organization reports grants and contributions as temporarily restricted support if they are received with donor or grantor stipulations that limit the use of the donated assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of activities as net assets released from restrictions. However, restrictions met in the same accounting period in which the related contribution was received are treated as unrestricted.

Revenue from all other sources is recognized when earned.

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

The Organization follows Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures,* for financial assets and liabilities. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and level 3 is based on unobservable inputs. This standard had no effect on the Organization's consolidated financial statements, but did result in additional disclosures in Note 6.

Functional Allocation of Expenses

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, the Organization allocates salaries, benefits, and overhead expenses to the various program and supporting services based upon estimates of the resources used in each area.

Reclassifications

Certain 2010 amounts have been reclassified to conform to the 2011 presentation. None of these reclassifications had any impact on the change in net assets.

Measure of Operations

The Organization considers realized and unrealized gains and losses on investments to be other items not included in operations.

Use of Estimates

The preparation 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 amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

3. Concentration of Credit and Market Risks

The Organization maintains their funds in bank deposit accounts which, at times, may exceed federally insured limits. The Organization also invests in a variety of investments. These investments are exposed to various risks, such as fluctuations in market value and credit risk. It is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

4. Pledges Receivable

Pledges receivable represent unconditional amounts committed to the Organization and are recognized as contribution revenue in the period promised or received. Management determines the allowance for doubtful accounts by identifying troubled accounts, and by using historical experience applied to an aging of accounts. Based on these reviews, management did not deem the use of an allowance for uncollectible pledges to be necessary at June 30, 2011 and 2010. Pledges receivable consisted of the following amounts at June 30:

	2011	2010
Receivable in less than one year	$ 39,000	$ 80,500
Receivable in one to five years	58,000	55,500
Total pledges receivable	$ 97,000	$ 136,000

Amounts due beyond one year have not been discounted and recorded to their present value, due to immateriality.

5. Investments

Investments consist of the following at June 30:

	2011	2010
Certificates of deposit	$ 47,370	$ 69,273
Mutual funds - equities	668,983	291,157
Mutual funds - equities and fixed income	2,444,106	2,343,576
Money market funds	40,685	145,453
Corporate bonds and notes	268,020	237,274
Total investments	$ 3,469,164	$ 3,086,733

5. Investments (continued)

Investment income consists of the following for the years ended June 30:

	2011	2010
Interest, dividends, and capital gain distributions	$ 93,538	$ 105,005
Net realized and unrealized gains	365,529	160,344
Total investment income	$ 459,067	$ 265,349

6. Fair Value Measurements

Fair value of assets measured on a recurring basis is as follows as of June 30:

	Total fair value	Level 1	Level 2	Level 3
2011:				
Certificates of deposit	$ 47,370	$ -	$ 47,370	$ -
Mutual funds - equities	668,983	668,983	-	-
Mutual funds - equities and fixed income	2,444,106	2,444,106	-	-
Money market funds	40,685	40,685	-	-
Corporate bonds and notes	268,020	-	268,020	-
Deferred compensation - equity and bond mutual funds	44,123	44,123	-	-
Total investments	$ 3,513,287	$ 3,197,897	$ 315,390	$ -
2010:				
Certificates of deposit	$ 69,273	$ -	$ 69,273	$ -
Mutual funds - equities	291,157	291,157	-	-
Mutual funds - equities and fixed income	2,343,576	2,343,576	-	-
Money market funds	145,453	145,453	-	-
Corporate bonds and notes	237,274	-	237,274	-
Deferred compensation - equity and bond mutual funds	15,115	15,115	-	-
Total investments	$ 3,101,848	$ 2,795,301	$ 306,547	$ -

6. Fair Value Measurements (continued)

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 includes money market funds and all mutual funds. In cases where valuation is based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, Level 2 hierarchy is applied. Level 2 includes certificates of deposit and corporate bonds and notes. There were no level 3 financial assets at June 30, 2011 and 2010.

7. Property and Equipment

Property and equipment consists of the following at June 30:

	2011	2010
Furniture	$ 271,511	$ 271,511
Equipment	674,313	670,894
Building and improvements	368,619	368,619
Land	700,000	700,000
Total property and equipment	2,014,443	2,011,024
Less: accumulated depreciation and amortization	(957,031)	(791,093)
Property and equipment, net	$ 1,057,412	$ 1,219,931

Depreciation and amortization expense was $165,938 and $164,301 for the years ended June 30, 2011 and 2010, respectively.

8. Note Payable

In connection with the purchase of the Organization's building in Washington D.C., the Academy obtained a note from a local financial institution in the amount of $760,000 at an interest rate of 7% per year. The note required monthly payments of $5,422 commencing September 1, 2007, with the unpaid balance of principal and interest due August 1, 2017. During the year ended June 30, 2011, the remaining principal balance of the note was paid in full.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

	2011	2010
General Education	$ 74,215	$ 77,707
Pediatric Audiology	3,550	3,550
National Exam	14,226	14,226
Noise Induced Hearing Loss	7,730	9,540
Student Research	38,380	15,192
M. Downs Lecture Series	57,853	71,182
Memorial Scholarships	40,589	6,340
Student Programs	67,718	-
Advances Lecture	1,512	-
Musicians Industry	14,300	-
Future Leaders of Audiology	1,103	12,000
Total temporarily restricted net assets	$ 321,176	$ 209,737

10. Commitments and Contingencies

Office Space Lease

The Academy has a lease agreement for its headquarters office space in Reston, Virginia that began October 22, 2002 and expires October 21, 2012. The Academy received several months' free rent as a lease incentive, which was recorded as deferred lease incentive on the consolidated statements of financial position, and is being amortized against rental expense over the life of the lease. The unamortized portion resulting from the difference between the amounts paid and expensed make up the deferred lease incentive on the consolidated statements of financial position. The lease also requires payment of the Academy's proportionate share of the building's operating expenses and real estate taxes in addition to the minimum rental payments.

On December 31, 2011, the Academy signed a new ten-year office lease agreement commencing after the termination of the existing lease obligation.

10. Commitments and Contingencies (continued)

Office Space Lease (continued)

Future minimum payments under the existing and new agreements are as follows for each of the years ending June 30:

2012	$ 360,955
2013	213,866
2014	282,774
2015	290,551
2016	298,541
2017 and thereafter	2,211,341
Future minimum lease payments	$ 3,658,028

Office rent expense for the years ended June 30, 2011 and 2010 was $387,283 and $365,762, respectively.

Hotel Contracts

The Academy is committed under agreements for hotel through the year 2015 and conference facilities through the year 2017. The total commitment under the agreements is not determinable as it depends upon attendance and other unknown factors. In the event these conferences are cancelled before the event occurs, the Academy may be liable for certain amounts, depending on when cancellation occurs. Management believes no material liability is likely.

11. Retirement and Deferred Compensation Plans

Retirement Plan

The Organization has defined a contribution retirement savings plan that covers all employees who meet certain requirements. The Organization makes a fully vested contribution of 3% of each eligible employee's salary, regardless of employee contributions. In addition, the Organization makes a discretionary contribution that is determined annually, vested over six years. Retirement plan expense for the years ended June 30, 2011 and 2010 was $134,114 and $99,797, respectively.

11. Retirement and Deferred Compensation Plans (continued)

Deferred Compensation Plan

The Organization has a 457(b) non-qualified deferred compensation plan for the Executive Director as a means of providing a supplemental benefit. The Organization contributed the IRS annual maximum allowed into the plan, which was $16,500 for each of the years ended June 30, 2011 and 2010. Deferred compensation and investments designated for the deferrals are only available and taxable upon termination of employment, retirement, death or an unforeseeable emergency. Until paid or made available to the participant or beneficiary, all deferred amounts, and investment earnings related thereto, are solely the property and rights of the Organization. The accompanying consolidated statements of financial position reflect an asset of the fair value of the investments to be used to fund the obligation to the Executive Director and an equal amount is included as a liability in deferred compensation obligation.

12. Related Party

The American Academy of Audiology Political Action Committee (AAA-PAC) is a related political organization that supports policy goals important to audiologists and the practice of audiology through the support of candidates for elective office. AAA-PAC is exempt from the payment of income taxes on its exempt function income under Section 527(a) of the Internal Revenue Code (IRC). Its activities are not included in the accompanying consolidated financial statements as its operations are immaterial to the Organization. Net assets of AAA-PAC were approximately $55,000 and $52,000 at June 30, 2011 and 2010, respectively. The Academy provides office space, use of equipment, supplies, and administrative services to AAA-PAC at no charge.

13. Line of Credit

During 2011, the Academy obtained a $1,500,000 revolving line of credit with a financial institution, bearing interest equal to the 30-day LIBOR rate plus 2.75%, which requires monthly payments of interest. At June 30, 2011, the Organization did not have an outstanding balance or had not used the line any time prior. A portion of the Academy's investments has been pledged as collateral to secure the line of credit.

14. Income Taxes

Under Section 501(c)(6) of the IRC, the Academy is exempt from federal income taxes other than on net unrelated business income. At June 30, 2011 and 2010, no provision for income taxes was made, as the Academy had no net unrelated business income.

Under Section 501(c)(3) of the IRC, the Foundation is exempt from federal income taxes other than on net unrelated business income. The Internal Revenue Service has classified the Foundation as other than a private foundation. At June 30, 2011 and 2010, no provision for income taxes was made, as the Foundation had no net unrelated business income.

Both the Academy and the Foundation evaluated their tax positions and is not aware of any activities that would jeopardize their tax-exempt status. For the years ended June 30, 2011 and 2010, the Academy and the Foundation determined that no significant uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements

15. Subsequent Events

The Organization follows the guidance of FASB ASC 855, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date but before the consolidated financial statements are issued. FASB ASC 855 also requires disclosure of the date through which an entity has evaluated subsequent events. In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 2, 2012, the date the consolidated financial statements were issued.