American Academy of Audiology and Affiliate

Consolidated Financial Statements
and Independent Auditors' Report

June 30, 2012 and 2011

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 statements of financial position of the American Academy of Audiology and Affiliate ("the Organization"), as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years 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 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 audits 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 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 Organization at June 30, 2012 and 2011, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedules on pages 16-18 are presented for purposes of additional analysis, and are not a required part of the consolidated financial statements. 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 audits of the 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 consolidated financial statements as a whole.

Rogers & Company PLLC

Vienna, Virginia
April 1, 2013

American Academy of Audiology and Affiliate

Consolidated Statements of Financial Position
June 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 575,976	$ 889,253
Accounts receivable, net	162,563	58,841
Prepaid expenses	280,979	143,265
Pledges receivable	197,000	97,000
Investments	3,440,414	3,469,164
Deferred compensation assets	59,027	44,123
Property and equipment, net	1,051,930	1,057,412
Security deposit	78,812	16,018
Total assets	$ 5,846,701	$ 5,775,076
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 376,138	$ 500,637
Deferred revenue	1,802,275	2,196,422
Deferred lease incentive	1,361	13,461
Deferred compensation obligation	59,027	44,123
Total liabilities	2,238,801	2,754,643
Net Assets		
Unrestricted:		
Undesignated	2,948,498	2,504,990
Board-designated	194,267	194,267
Total unrestricted net assets	3,142,765	2,699,257
Temporarily restricted	465,135	321,176
Total net assets	3,607,900	3,020,433
Total liabilities and net assets	$ 5,846,701	$ 5,775,076

See accompanying notes.

American Academy of Audiology and Affiliate

Consolidated Statements of Activities
For the Years Ended June 30, 2012 and 2011

	2012	2011
Unrestricted Revenue and Support		
AudiologyNOW!	$ 3,919,502	$ 3,601,777
Membership dues	2,686,655	2,626,821
Communications	438,052	485,855
Continuing education	301,986	273,095
Board certification - ABA	211,178	160,432
Interest and dividend income	107,516	93,538
Special events	64,517	58,411
Contributions	40,789	64,167
Other income	7,593	1,432
Released from restrictions	106,870	62,119
Total unrestricted revenue and support	7,884,658	7,427,647
Expenses		
Program services:		
AudiologyNOW!	2,362,714	1,973,451
Communications	1,266,883	1,223,556
Advocacy	922,189	945,991
Membership	436,855	519,629
Continuing education	433,575	500,061
Board certification - ABA	344,745	457,296
American Academy of Audiology Foundation	151,899	132,158
Committees and task forces	143,417	140,692
Total program services	6,062,277	5,892,834
Supporting services:		
Administrative expenses	1,207,840	1,223,854
Cost of benefits provided to donors	51,919	46,029
Fundraising	8,908	7,371
Total supporting services	1,268,667	1,277,254
Total expenses	7,330,944	7,170,088
Change in unrestricted net assets from operations	553,714	257,559
Realized and unrealized (losses) gains on investments	(110,206)	365,529
Total change in unrestricted net assets	443,508	623,088
Temporarily Restricted Net Assets		
Contributions	239,918	159,130
Special events	10,911	14,427
Net assets released from restrictions	(106,870)	(62,119)
Total change in temporarily restricted net assets	143,959	111,438
Change in Net Assets	587,467	734,526
Net Assets, beginning of year	3,020,433	2,285,907
Net Assets, end of year	$ 3,607,900	$ 3,020,433

See accompanying notes.

American Academy of Audiology and Affiliate

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	$ 587,467	$ 734,526
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	59,792	165,938
Net realized and unrealized losses (gains) on investments	110,206	(365,529)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	(103,722)	107,907
Prepaid expenses	(167,414)	(24,664)
Pledges receivable	(100,000)	39,000
Deferred compensation assets	(14,904)	(29,008)
Increase (decrease) in:		
Accounts payable and accrued expenses	(124,499)	231,865
Deferred revenue	(394,147)	405,554
Deferred lease incentive	(12,100)	(12,100)
Deferred compensation obligation	14,904	29,008
Net cash (used in) provided by operating activities	(144,417)	1,282,497
Cash Flows from Investing Activities		
Proceeds from sales of investments	796,520	1,075,251
Purchases of investments	(877,976)	(1,092,153)
Purchases of property and equipment	(24,610)	(3,419)
Payment of security deposit	(62,794)	-
Net cash used in investing activities	(168,860)	(20,321)
Cash Flows from Financing Activity		
Repayment of note payable	-	(725,365)
Net cash used in financing activity	-	(725,365)
Net (Decrease) Increase in Cash and Cash Equivalents	(313,277)	536,811
Cash and Cash Equivalents, beginning of year	889,253	352,442
Cash and Cash Equivalents, end of year	$ 575,976	$ 889,253
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ -	$ 55,059

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 ABA's Board of Governors dedicated to enhancing audiologic services to the public by promulgating universally recognized standards in professional practice. ABA encourages audiologists to exceed these prescribed standards, thereby promoting a high level of professional development and ethical practice.

Subsequent to June 30, 2012, the Academy's Board of Directors approved changing the Organization's fiscal year to begin October 1 and end September 30, beginning October 1, 2013.

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-entity 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 are in accordance with generally accepted accounting principles for not-for-profit organizations.

2. Summary of Significant Accounting Policies (continued)

Net assets are reported based on the presence or absence of donor-imposed restrictions, as follows:

- *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 unrestricted net assets $194,267 at both June 30, 2012 and 2011 of Board-designated amounts that is used 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.

Cash Equivalents

The Organization considers all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of 90 days or less at the time of purchase, to be cash equivalents.

Accounts Receivable

Accounts receivable primarily consists 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 $37,301 and $23,501 at June 30, 2012 and 2011, respectively.

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 pledges through analysis of specific pledges made, including such factors as prior collection history, type of contribution, and nature of fundraising activity. Management believes that all pledges receivable are collectible at June 30, 2012 and 2011.

Investments

Investments are stated at fair value. Interest and dividend income is accounted for on the accrual basis. Unrealized gains and losses are included in the change in net assets in the accompanying 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. Minor repair and maintenance costs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to seven years. Building and improvements are depreciated using the straight-line method over 30 years. Land is not depreciated or amortized.

Revenue Recognition

Membership dues are recognized ratably over the applicable dues 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, 2012 and 2011, deferred revenue related to membership dues totaled $1,224,939 and $1,205,593, respectively.

AudiologyNOW! revenue includes registrations and exhibitor fees and is recognized as revenue in the period in 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, 2012 and 2011, deferred revenue related to AudiologyNOW! totaled $463,597 and $813,752, respectively.

Contributions are recorded as revenue when received or promised. The Organization reports gifts of cash and other assets as temporarily restricted support if they are received or promised with donor stipulations that limit the use of the donated assets to one of the Organization's programs or to a future year. When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received.

Communications revenue consists of subscriptions, advertising royalties, and product sales related to the Academy's publications. Revenue is recognized when the publications are issued.

2. Summary of Significant Accounting Policies (continued)

Board certification revenue is generally recognized upon receipt of payment. For member certification subject to an approval process, revenue is recognized upon completion of the approval process, and payments received prior to approval are included in deferred revenue.

Revenue from all other sources is recognized when earned.

Functional Allocation of Expenses

The costs of providing the Organization's programs and other activities 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.

Measure of Operations

The Organization includes in its measure of operations all revenues and expenses that are an integral part of its programs and supporting activities, and excludes realized and unrealized gains and losses on investments.

Use of Estimates

The preparation of consolidated 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.

Reclassifications

Certain amounts in the 2011 consolidated financial statements have been reclassified to conform to the 2012 presentation. These reclassifications have no effect on the previously reported change in net assets.

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 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 April 1, 2013, the date the consolidated financial statements were issued.

3. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to significant concentrations of credit risk primarily consist of cash and cash equivalents and investments. The Organization maintains cash and cash equivalents accounts with financial institutions that at times exceed Federal Deposit Insurance Corporation (FDIC) limits. The Organization also maintains investments with a financial institution that exceeds insurable limits under the Securities Investor Protection Corporation (SIPC). The Organization has not experienced any credit losses on its cash and cash equivalents and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

4. Pledges Receivable

Pledges receivable are due as follows at June 30:

	2012	2011
Receivable in less than one year	$ 66,500	$ 39,000
Receivable in one to five years	130,500	58,000
Total pledges receivable	$ 197,000	$ 97,000

Amounts due beyond one year have not been discounted to their net present value due to the immateriality of such an adjustment.

5. Investments

Investments consist of mutual funds, corporate bonds, money market funds, and certificates of deposit (see Note 6). Investment (loss) income consists of the following for the years ended June 30:

	2012	2011
Interest and dividends	$ 107,516	$ 93,538
Net realized and unrealized (losses) gains	(110,206)	365,529
Total investment (loss) income	$ (2,690)	$ 459,067

6. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset between market participants in an orderly transaction on the measurement date. The market in which the reporting entity would sell the asset with the greatest volume and level of activity for the asset is known as the principal market. When no principal market exists, the most advantageous market is used. This is the market in which the reporting entity would sell the asset with the price that maximizes the amount that would be received. Fair value is based on assumptions market participants would make in pricing the asset. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the reporting entity should use valuation models.

Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument. The inputs used in measuring fair value are categorized into three levels, as follows:

- **Level 1 –** Inputs that are based upon quoted prices for identical instruments traded in active markets.

- **Level 2 –** Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment.

- **Level 3 –** Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

In general, and where applicable, the Organization uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments. If quoted prices in active markets for identical assets are not available to determine fair value, then the Organization uses quoted prices for similar assets or inputs other than the quoted prices that are observable either directly or indirectly. These investments are included in Level 2.

6. Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value:

	As of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds:				
Equity	$ 1,908,379	$ -	$ -	$ 1,908,379
Fixed income	1,249,795	-	-	1,249,795
Corporate bonds	-	251,625	-	251,625
Money market funds	23,559	-	-	23,559
Certificates of deposit	-	7,056	-	7,056
Deferred compensation assets:				
Mutual funds	59,027	-	-	59,027
Total assets at fair value	$ 3,240,760	$ 258,681	$ -	$ 3,499,441

	As of June 30, 2011			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds:				
Equity	$ 1,881,136	$ -	$ -	$ 1,881,136
Fixed income	1,231,953	-	-	1,231,953
Corporate bonds	-	268,020	-	268,020
Money market funds	40,685	-	-	40,685
Certificates of deposit	-	47,370	-	47,370
Deferred compensation assets:				
Mutual funds	44,123	-	-	44,123
Total assets at fair value	$ 3,197,897	$ 315,390	$ -	$ 3,513,287

7. Property and Equipment

Property and equipment consists of the following at June 30:

	2012	2011
Furniture	$ 271,511	$ 271,511
Office equipment and computer software	686,313	674,313
Building and improvements	368,619	368,619
Land	700,000	700,000
Total property and equipment	2,026,443	2,014,443
Less: accumulated depreciation	(974,513)	(957,031)
Property and equipment, net	$ 1,051,930	$ 1,057,412

Depreciation expense totaled $59,792 and $165,938 for the years ended June 30, 2012 and 2011, respectively.

8. Note Payable

In connection with the purchase of the Organization's building in Washington, DC, the Organization 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. Line of Credit

The Academy maintains a $1,500,000 revolving line of credit with a financial institution. The line of credit bears interest equal to the 30-day LIBOR plus 2.75% (2.97% at June 30, 2012) and requires monthly payments of interest. As of June 30, 2012 and 2011, the Academy did not have an outstanding balance or had not used the line at any time prior. This line of credit is due on demand and is secured by a portion of the Academy's investments. This agreement does not contain an expiration date.

10. Temporarily Restricted Net Assets

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

	2012	2011
Student Programs	$ 73,146	$ 67,718
General Education	72,055	74,215
Tinnitus Lecture	70,000	-
Workplace Management Lecture	52,143	-
Memorial Scholarships	47,344	40,589
M. Downs Lecture Series	44,356	57,853
Musicians Industry	29,946	14,300
Student Research	27,603	38,380
Future Leaders of Audiology	26,153	1,103
National Exam	14,226	14,226
Noise Induced Hearing Loss	6,350	7,730
Humanitarian	1,000	-
Advances Lecture	813	1,512
Pediatric Audiology	-	3,550
Total temporarily restricted net assets	$ 465,135	$ 321,176

11. 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 is reflected as a deferred lease incentive on the accompanying 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.

In November 2012, upon the expiration of its existing office lease in October 2012, the Organization moved its headquarters to a new location in Reston, Virginia, and began a ten-year lease under the terms of an agreement signed by the Academy on December 31, 2011.

11. Commitments and Contingencies (continued)

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

2013	$	213,866
2014		282,774
2015		290,551
2016		298,541
2017		306,751
Thereafter		1,904,590
Future minimum lease payments	$	3,297,073

Office rent expense for the years ended June 30, 2012 and 2011 was $357,386 and $387,283, respectively.

Hotel Contracts

The Academy is committed under agreements for hotel space 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 that 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.

12. Retirement and Deferred Compensation Plans

Retirement Plan

The Organization has a defined contribution retirement savings plan that covers all employees who meet certain eligibility 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. The Organization recorded contributions to the retirement plan of $164,407 and $134,114 for the years ended June 30, 2012 and 2011, respectively.

12. 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, 2012 and 2011. 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.

13. 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 $80,000 and $55,000 at June 30, 2012 and 2011, respectively. The Academy provides office space, use of equipment, supplies, and administrative services to AAA-PAC at no charge.

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. Under Section 501(c)(3) of the IRC, the Foundation is exempt from federal income taxes other than on net unrelated business income. The Foundation is not a private foundation pursuant to section 509(a)(1) of the IRC. At June 30, 2012 and 2011, no provision for income taxes was made, as the Organization had no net unrelated business income.

The Organization has evaluated its tax positions and is not aware of any activities that would jeopardize its tax-exempt status. For the years ended June 30, 2012 and 2011, management has evaluated the Organization’s tax positions and has concluded that there are no uncertain tax positions that require recognition or disclosure in the consolidated financial statements.