

Epilepsy Foundation of America (dba Epilepsy Foundation)

Audited Consolidated Financial Statements, Other Financial Information and Uniform Guidance Supplemental Reports

*Years ended June 30, 2022 and 2021
with Report of Independent Auditors*

Epilepsy Foundation of America (dba Epilepsy Foundation)

Audited Consolidated Financial Statements,
Other Financial Information and
Uniform Guidance Supplemental Reports

Years ended June 30, 2022 and 2021

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Report of Independent Auditors

Board of Directors
Epilepsy Foundation of America (dba Epilepsy Foundation)

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Epilepsy Foundation of America (dba Epilepsy Foundation) (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Foundation as of June 30, 2022 and 2021, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter - Discontinued Operations

As discussed in Note 20 to the consolidated financial statements, the Foundation separated with the Epilepsy Foundation of Greater Los Angeles (EFGLA) effective January 31, 2021. Therefore, EFGLA operations have been classified as discontinued operations in these consolidated financial statements. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is 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 audit 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2023 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Vienna, Virginia
February 14, 2023

Epilepsy Foundation of America (dba Epilepsy Foundation)

Consolidated Statements of Financial Position

As of June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 4,114,713	\$ 2,382,508
Investments	11,545,097	13,806,696
Contributions receivable, net	853,147	869,351
Government grants receivable	487,512	503,322
Notes receivable	225,000	-
Due from affiliates	62,783	73,776
Prepaid expenses	375,294	165,397
Inventory	3,777	28,159
Fixed assets, net	141,487	517,465
Deferred rent asset	-	59
Beneficial interest in perpetual trusts	3,184,867	3,731,234
Beneficial interest in assets held by a community foundation	<u>38,202</u>	<u>32,235</u>
Total assets	<u>\$ 21,031,879</u>	<u>\$ 22,110,202</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,857,198	\$ 1,680,807
Grants payable	204,710	597,210
Refundable advances	170,000	363,443
Paycheck Protection Program loan payable	<u>-</u>	<u>2,001,450</u>
Total liabilities	3,231,908	4,642,910
Net assets:		
Without donor restrictions	11,350,195	11,233,493
With donor restrictions	<u>6,449,776</u>	<u>6,233,799</u>
Total net assets	<u>17,799,971</u>	<u>17,467,292</u>
Total liabilities and net assets	<u>\$ 21,031,879</u>	<u>\$ 22,110,202</u>

See accompanying notes to the consolidated financial statements.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Consolidated Statement of Activities

Year ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Contributions	\$ 9,131,280	\$ 1,507,583	\$ 10,638,863
Government grants	4,482,312	-	4,482,312
Gain on extinguishment of debt	2,001,450	-	2,001,450
Affiliate fees	409,658	-	409,658
Sales of materials	(105,248)	-	(105,248)
Special events	3,134,723	-	3,134,723
Investment loss, net	(1,458,491)	-	(1,458,491)
Miscellaneous revenue	358,659	-	358,659
Donated clothing poundage revenue	816,097	-	816,097
Change in value of beneficial interests in trusts	-	(540,400)	(540,400)
Total revenue	18,770,440	967,183	19,737,623
Net assets released from donor restrictions	751,206	(751,206)	-
Total revenue	19,521,646	215,977	19,737,623
Expenses			
Program services:			
Research, Innovation and New Therapies	2,217,649	-	2,217,649
Public Health, Education and Awareness	4,957,262	-	4,957,262
Advocacy and Services for Individuals, Families and Communities	8,235,562	-	8,235,562
Total program services	15,410,473	-	15,410,473
Supporting services:			
Administrative	1,641,580	-	1,641,580
Fundraising	2,352,891	-	2,352,891
Total supporting services	3,994,471	-	3,994,471
Total expenses	19,404,944	-	19,404,944
Change in net assets	116,702	215,977	332,679
Net assets, beginning of year	11,233,493	6,233,799	17,467,292
Net assets, end of year	<u>\$ 11,350,195</u>	<u>\$ 6,449,776</u>	<u>\$ 17,799,971</u>

See accompanying notes to the consolidated financial statements.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Consolidated Statement of Activities

Year ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Contributions	\$ 9,541,719	\$ 689,953	\$ 10,231,672
Government grants	4,040,800	-	4,040,800
Affiliate fees	386,323	-	386,323
Sales of materials	4,499	-	4,499
Special events	2,438,772	-	2,438,772
Investment income, net	1,853,559	-	1,853,559
Miscellaneous revenue	240,958	-	240,958
Donated clothing poundage revenue	504,978	-	504,978
Change in value of beneficial interests in trusts	-	523,943	523,943
Total revenue	19,011,608	1,213,896	20,225,504
Net assets released from donor restrictions	1,025,466	(1,025,466)	-
Total revenue	20,037,074	188,430	20,225,504
Expenses			
Program services:			
Research, Innovation and New Therapies	3,132,680	-	3,132,680
Public Health, Education and Awareness	4,140,085	-	4,140,085
Advocacy and Services for Individuals, Families and Communities	8,711,323	-	8,711,323
Total program services	15,984,088	-	15,984,088
Supporting services:			
Administrative	1,737,943	-	1,737,943
Fundraising	1,827,409	-	1,827,409
Total supporting services	3,565,352	-	3,565,352
Total expenses	19,549,440	-	19,549,440
Change in net assets before effects of discontinued operations	487,634	188,430	676,064
Loss from discontinued operations	(4,365,462)	1,297,193	(3,068,269)
Net assets released from restriction - discontinued operations	3,640,580	(3,640,580)	-
Change in net assets	(237,248)	(2,154,957)	(2,392,205)
Net assets, beginning of year	11,470,741	8,388,756	19,859,497
Net assets, end of year	<u>\$ 11,233,493</u>	<u>\$ 6,233,799</u>	<u>\$ 17,467,292</u>

See accompanying notes to the consolidated financial statements.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Consolidated Statement of Functional Expenses

Year ended June 30, 2022

	Program Services				Supporting Services			Total Expenses
	Research, Innovation and New Therapies	Public Health, Education and Awareness	Advocacy and Services for Individuals, Families and Communities	Total Program Services	Administrative	Fundraising	Total Supporting Services	
Salaries	\$ 400,905	\$ 1,170,572	\$ 3,932,197	\$ 5,503,674	\$ 748,563	\$ 808,076	\$ 1,556,639	\$ 7,060,313
Employee benefits	82,093	244,621	814,738	1,141,452	148,968	170,090	319,058	1,460,510
Total salary and benefit expenses	<u>482,998</u>	<u>1,415,193</u>	<u>4,746,935</u>	<u>6,645,126</u>	<u>897,531</u>	<u>978,166</u>	<u>1,875,697</u>	<u>8,520,823</u>
Special event expenses	159,783	750,426	114,797	1,025,006	-	249,578	249,578	1,274,584
Professional fees and consultants	476,280	2,160,022	2,208,503	4,844,805	441,679	644,460	1,086,139	5,930,944
Supplies and materials	3,525	173,431	47,498	224,454	4,812	72,257	77,069	301,523
Telephone	15,578	28,370	67,461	111,409	7,221	11,301	18,522	129,931
Postage and shipping	2,684	62,138	25,896	90,718	2,723	29,604	32,327	123,045
Occupancy	41,636	50,603	203,684	295,923	42,342	25,660	68,002	363,925
Equipment maintenance	2,292	67,238	41,583	111,113	5,094	3,486	8,580	119,693
Printing and publications	13,561	27,685	102,988	144,234	14,180	6,087	20,267	164,501
Travel and meetings	239,654	154,946	194,252	588,852	35,202	11,879	47,081	635,933
Payments to affiliates	-	-	274,338	274,338	5,000	239,102	244,102	518,440
Awards and grants	647,786	15,996	15,000	678,782	-	-	-	678,782
Miscellaneous	109,437	19,801	117,934	247,172	180,980	62,676	243,656	490,828
Depreciation and amortization	22,435	31,413	74,693	128,541	4,816	18,635	23,451	151,992
	<u>1,734,651</u>	<u>3,542,069</u>	<u>3,488,627</u>	<u>8,765,347</u>	<u>744,049</u>	<u>1,374,725</u>	<u>2,118,774</u>	<u>10,884,121</u>
Total expenses by function	<u>\$ 2,217,649</u>	<u>\$ 4,957,262</u>	<u>\$ 8,235,562</u>	<u>\$ 15,410,473</u>	<u>\$ 1,641,580</u>	<u>\$ 2,352,891</u>	<u>\$ 3,994,471</u>	<u>\$ 19,404,944</u>

See accompanying notes to the consolidated financial statements.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Consolidated Statement of Functional Expenses

Year ended June 30, 2021

	Program Services				Supporting Services			Total Expenses
	Research, Innovation and New Therapies	Public Health, Education and Awareness	Advocacy and Services for Individuals, Families and Communities	Total Program Services	Administrative	Fundraising	Total Supporting Services	
Salaries	\$ 427,854	\$ 1,283,288	\$ 4,153,963	\$ 5,865,105	\$ 879,816	\$ 701,667	\$ 1,581,483	\$ 7,446,588
Employee benefits	86,938	302,702	900,675	1,290,315	201,193	119,312	320,505	1,610,820
Total salary and benefit expenses	<u>514,792</u>	<u>1,585,990</u>	<u>5,054,638</u>	<u>7,155,420</u>	<u>1,081,009</u>	<u>820,979</u>	<u>1,901,988</u>	<u>9,057,408</u>
Special event expenses	-	522,291	126,030	648,321	88,409	169,301	257,710	906,031
Professional fees and consultants	1,208,046	928,305	2,080,968	4,217,319	180,059	279,618	459,677	4,676,996
Membership	10,049	3,877	21,903	35,829	5,656	4,407	10,063	45,892
Supplies and materials	219	396,961	27,668	424,848	8,450	2,924	11,374	436,222
Telephone	16,170	23,944	91,606	131,720	9,501	12,505	22,006	153,726
Postage and shipping	397	107,596	23,638	131,631	744	4,508	5,252	136,883
Occupancy	359,251	450,106	695,562	1,504,919	169,711	227,557	397,268	1,902,187
Equipment maintenance	118,268	162,124	187,572	467,964	80,776	224,629	305,405	773,369
Printing and publications	2,996	8,429	54,247	65,672	606	22,070	22,676	88,348
Travel and meetings	36,002	2,705	30,584	69,291	1,292	2,798	4,090	73,381
Payments to affiliates	-	-	465,943	465,943	-	-	-	465,943
Awards and grants	776,161	-	85,591	861,752	78	-	78	861,830
Miscellaneous	2,072	14,422	7,686	24,180	111,015	32,899	143,914	168,094
Depreciation and amortization	91,262	107,733	115,799	314,794	37,836	55,370	93,206	408,000
Distribution of EFGLA assets	-	-	3,949,906	3,949,906	754,650	-	754,650	4,704,556
	<u>2,620,893</u>	<u>2,728,493</u>	<u>7,964,703</u>	<u>13,314,089</u>	<u>1,448,783</u>	<u>1,038,586</u>	<u>2,487,369</u>	<u>15,801,458</u>
Total expenses by function	<u>3,135,685</u>	<u>4,314,483</u>	<u>13,019,341</u>	<u>20,469,509</u>	<u>2,529,792</u>	<u>1,859,565</u>	<u>4,389,357</u>	<u>24,858,866</u>
Less expenses classified in other sections on the consolidated statement of activities:								
EFGLA - discontinued operations	<u>(3,005)</u>	<u>(174,398)</u>	<u>(4,308,018)</u>	<u>(4,485,421)</u>	<u>(791,849)</u>	<u>(32,156)</u>	<u>(824,005)</u>	<u>(5,309,426)</u>
Total expenses included in the expense section on the consolidated statement of activities	<u>\$ 3,132,680</u>	<u>\$ 4,140,085</u>	<u>\$ 8,711,323</u>	<u>\$ 15,984,088</u>	<u>\$ 1,737,943</u>	<u>\$ 1,827,409</u>	<u>\$ 3,565,352</u>	<u>\$ 19,549,440</u>

See accompanying notes to the consolidated financial statements.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Consolidated Statements of Cash Flows

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flow from operating activities		
Net change in net assets	\$ 332,679	\$ (2,392,205)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation & amortization	151,992	408,000
Change in allowance for doubtful accounts	(3,000)	(13,534)
Net realized and unrealized loss (gain) on investments	1,747,144	(1,421,820)
Change in beneficial interest in perpetual trusts	540,400	1,397,040
Gain on forgiveness of debt	(2,001,450)	-
Loss on disposal	223,986	-
Changes in operating assets and liabilities:		
Contributions receivable	19,204	275,353
Government grants receivable	15,810	(55,094)
Due from affiliates	10,993	(9,059)
Prepaid expenses	(209,897)	208,673
Inventory	24,382	-
Deferred rent	59	39,027
Accounts payable and accrued liabilities	1,176,391	417,301
Grants payable	(392,500)	(1,808,000)
Refundable advances	(193,443)	(410,194)
Net cash flows provided by (used in) operating activities	<u>1,442,750</u>	<u>(3,364,512)</u>
Cash flow from investing activities		
Purchase of property and equipment	-	(173,610)
Purchase of investments	(470,138)	(7,163,617)
Proceeds from sale of investments	984,593	2,327,052
Notes receivable issued	(225,000)	-
Net cash flows provided by (used in) investing activities	<u>289,455</u>	<u>(5,010,175)</u>
Net change in cash and cash equivalents	1,732,205	(8,374,687)
Cash and cash equivalents, beginning of year	<u>2,382,508</u>	<u>10,757,195</u>
Cash and cash equivalents, end of year	<u>\$ 4,114,713</u>	<u>\$ 2,382,508</u>
Supplemental cash flow disclosures for non-cash financing activities:		
PPP loan principal forgiven during year	<u>\$ 2,001,450</u>	<u>\$ -</u>

See accompanying notes to the consolidated financial statements.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements

Years ended June 30, 2022 and 2021

1. Summary of Significant Accounting Policies and General Information

Organization

The Epilepsy Foundation of America (dba Epilepsy Foundation) (the Foundation) is a non-profit organization, incorporated under the laws of the State of Delaware; it was formed to overcome the challenges of living with epilepsy and to accelerate therapies, stop seizures, find cures, and save lives. The accompanying consolidated financial statements include the activities of thirteen local chapters that provide programs, information, and referral services to local communities. In addition, the Foundation is affiliated with multiple separately incorporated foundations that provide local program services. The consolidated financial statements do not include the activities of the affiliates.

During the year ended June 30, 2021, the Foundation separated with the Epilepsy Foundation of Greater Los Angeles (EFGLA) and accordingly, the related activity is reported as discontinued operations in the consolidated statements of activities. See Note 20 for further details regarding the separation. Additionally, Effective October 23, 2020, Epilepsy Ventures Fund LLC (the LLC) was formed as a Delaware limited liability company. The Foundation is the sole member of the LLC.

Epilepsy Foundation fulfills its missions by focusing on the following program areas:

Advocacy and Services for Individuals, Families and Communities - The Foundation is on the front lines helping ensure all people living with epilepsy and seizures, and their families and communities, receive the best possible services and care. The Foundation develops nationwide programs available through its network of nearly 50 local Epilepsy Foundations and can also be found on epilepsy.com. Programs and initiatives focus on engaging parents, children and adults on improving their quality of life. The Foundation also has programs dedicated to ending early death from epilepsy and improving overall wellness. The programs are designed to be culturally and ethnically diverse. The Foundation and its grassroots volunteers across the country advocate at the federal and state levels to secure funding for epilepsy programs.

Public Health, Education and Awareness - The Foundation leads the fight to end epilepsy by creating awareness through national media outreach with traditional and digital channels including epilepsy.com and social media and through the direct mail program which serves the dual purpose of raising funds for the organization and increasing awareness of the Foundation's cause. The Foundation educates about seizure recognition and first aid, emphasizing the importance of early and accurate diagnosis, when to seek specialty care, and pursuit of wellness and best quality of life. The Foundation educates through engagement with media sources, partnerships with other non-profit, professional and government organizations. The Foundation's Epilepsy Learning Healthcare System Network is a public health initiative to drive quality improvement and health services research to improve outcomes for people with epilepsy.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

1. Summary of Significant Accounting Policies and General Information (Continued)

Organization (continued)

Research, Innovation, and New Therapies - Bringing innovative new therapies in a timeframe that matters is a driving force and key strategic priority for the Foundation. Through the Epilepsy Therapy Project, the Foundation accelerates development of innovative therapies, prevention, and cures for all forms of the epilepsies, and addresses gaps in the research and commercialization continuum. Other key initiatives include research to eradicate SUDEP, analysis of data from patient registries for common and rare forms of epilepsy in the Human Epilepsy Project and the Rare Epilepsy Network, support for promising and meritorious research grant and fellowship applications.

Basis of presentation

The accompanying consolidated financial statements are presented on the accrual basis of accounting, and in accordance with generally accepted accounting principles in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) ASC 958, *Not-for-Profit Entities*.

Principles of consolidation

These financial statements include the accounts of the Epilepsy Foundation, the Epilepsy Research Foundation, the LLC, the Epilepsy Foundation of America (Utah), Inc., the Epilepsy Foundation of America (Oklahoma) LLC, the Epilepsy Foundation Arizona, the Epilepsy Foundation Northwest, and Central Florida (collectively, the Foundation) pursuant to GAAP. Under GAAP, consolidation is required if a separate not-for-profit organization has control (i.e., major voting interest) and significant economic interest in that other organization. All significant intercompany accounts and transactions have been eliminated in consolidation.

Risks and uncertainties

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, liquidity, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and those changes could materially affect the amounts reported on the consolidated statements of financial position.

Cash and cash equivalents

The Foundation considers all cash and other highly liquid investments, including certificates of deposit, with maturities of three months or less to be cash equivalents. Money market funds held by investment managers in the amount of \$319,376 and \$281,183 as of June 30, 2022 and 2021, respectively, have been included in investments in the consolidated statements of financial position.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, the Foundation maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

1. Summary of Significant Accounting Policies and General Information (Continued)

Cash and cash equivalents (continued)

There was no restricted cash and cash equivalents as of June 30, 2022 and 2021.

Investments

Investments are recorded at fair value.

Investment income, net consists of interest and dividends earned from cash, cash equivalents and investments, net of related investment management expenses, along with the change in fair value of investments including gains and losses realized upon sales and unrealized resulting from fluctuations in market values of investments.

Receivables

Contributions receivable are recorded at the present value of their estimated future cash flows. Government grants receivables are recorded at their net realizable value. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer.

Notes receivable

Notes receivable consists of loans made to private companies. Included within notes receivable on the consolidated statements of financial position are notes that contain features that give the ability to the Foundation to convert its loan instrument to obtain equity ownership in the organization of the note holder. The issuers of these convertible notes are not publicly traded entities and there is no market for the notes. Accordingly, the Foundation is unable to estimate the fair value of these conversion options and has recorded the notes at their cost. The Foundation has not recorded an allowance for loan losses as of June 30, 2022 and 2021.

Fixed assets

Fixed assets are stated at cost. Fixed assets costing in excess of \$1,000 are capitalized and depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. Leasehold improvements are amortized over the life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred.

Income taxes

Both the Epilepsy Foundation and the Epilepsy Research Foundation are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and are not considered to be private foundations. Utah, Oklahoma, Central Florida, and the LLC are disregarded entities for tax purposes. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

1. Summary of Significant Accounting Policies and General Information (Continued)

Income taxes (continued)

For the years ended June 30, 2022 and 2021, the Epilepsy Foundation and the Epilepsy Research Foundation have documented their consideration for reporting uncertainty in income taxes and have determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements.

Inventory

Inventory consists of publications and educational materials on hand at the end of the year, which are recorded at the lower of cost or net realizable value using the weighted average method of inventory.

Beneficial interests in perpetual trust

Beneficial interests in perpetual trust consist of assets donated directly to the Foundation or placed by the donor in a trust, in which the Foundation has a beneficial interest but is not the sole beneficiary. Beneficial interests in trusts are recorded at fair value based on the underlying value of the percentage share of assets donated to the Foundation when the beneficial interest becomes irrevocable.

Grants payable

Unconditional grant obligations are recognized once an award letter has been approved.

Net assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net assets without donor restrictions** - Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for chapter operations, future projects, and reserves.
- **Net assets with donor restrictions** - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose has been fulfilled, or both.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

1. Summary of Significant Accounting Policies and General Information (Continued)

Revenue Recognition

Contributions and bequests

Contributions are recorded as revenue when an unconditional promise to give is received from the donor. Conditional promises to give, with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Contributions received prior to meeting the conditions are reported as refundable advances in the consolidated statements of financial position. Contributions with donor restrictions are recognized as without donor restrictions only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying consolidated financial statements. Bequests are recorded as revenue when the associated agreement becomes irrevocable.

Contracts and grants

The Foundation receives funding under grants and contracts from the U.S. government and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered conditional contributions and are recorded as income without donor restrictions to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements. Contract and grant income received prior to meeting the conditions are reported as refundable advances in the consolidated statements of financial position.

Donated clothing

Donated clothing is recorded based on the estimated value per pound of the associated clothing when received.

Affiliate fees

The Foundation collects an annual fee from affiliated Foundation chapters. This fee gives the affiliates the right to use the name and logo of the Foundation. Additionally, the Foundation provides a spotlight for the affiliates on its website. These benefits are considered to be one performance obligation for financial statement purposes. Affiliate fees are recorded as revenue during the time period of the Foundation's agreement with the affiliate, which coincides with the affiliate's fiscal year. Affiliate fees are not refundable.

Special events

Special events revenues are considered contributions for financial reporting purposes. Furthermore, certain contributions associated with special events are considered conditional in nature as there is a barrier related to the respective event occurring and a right of release attributable to the donor. Special event revenues received prior to meeting the conditions are reported as refundable advances in the consolidated statements of financial position.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

1. Summary of Significant Accounting Policies and General Information (Continued)

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function, and therefore, require allocation on a reasonable basis that is consistently applied. Salary and benefit expenses, and certain professional fees and consultant expenses have been allocated on the basis of estimates of time and effort. All other expenses are allocated based on estimated time and expenses incurred across all programs and supporting services.

Fair value

GAAP defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements.

Loan Payable

On April 20, 2020, the Foundation received a loan pursuant to the Paycheck Protection Program (the Program), a program implemented and federally authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, for an aggregate principal amount of \$2,001,450 (the PPP Loan). The Foundation accounted for this PPP loan in accordance with the FASB Accounting Standards Codification (ASC) 470, Debt. See Note 19 for more information.

Gain on Extinguishment of Debt

Gain on extinguishment of debt relates to the forgiveness of the PPP Loan. See Note 19 for more information.

Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

2. Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the consolidated statements of financial position, comprise the following:

	June 30,	
	<u>2022</u>	<u>2021</u>
Financial assets		
Cash and cash equivalents	\$ 4,114,713	\$ 2,382,508
Investments	11,545,097	13,806,696
Contributions receivable, net	853,147	869,351
Government grants receivable	487,512	503,322
Notes receivable	225,000	-
Due from affiliates	62,783	73,776
Beneficial interest in perpetual trusts	<u>3,223,069</u>	<u>3,763,469</u>
	20,511,321	21,399,122
Less those unavailable for general expenditure within one year		
Net assets with donor restrictions	6,449,776	6,233,799
Board designated net assets	6,172,082	7,073,000
Contributions receivable with a maturity greater than one year	-	24,985
Illiquid long term investments	200,000	200,000
Convertible note receivable	<u>225,000</u>	<u>-</u>
	<u>\$ 7,464,463</u>	<u>\$ 7,867,338</u>

The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Foundation is substantially supported by contributions, special events, and Centers for Disease Control and Prevention (CDC) grant income. Both salary and vendor expenses directly attributable to the CDC grant, are generally reimbursed within a month of the expenditure. Due to the seasonable nature of contributions, special events and proceeds from which are used to meet the non-CDC requirements of the organization, the Foundation has access to a line of credit that it may draw upon to meet its obligations. The amount available from the line of credit fluctuates based on the value of the collateralized investments. Alternatively, the Foundation may choose to sell short-term investments.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

3. Investments

The fair value of investments consisted of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Money market funds	\$ 319,376	\$ 281,183
Common stocks	1,287,804	1,710,448
Mutual and exchange traded funds	9,407,284	11,232,870
Fixed income securities	86,918	99,728
Investment in TCG BDC II, Inc.	243,715	202,615
Investment in Blackstone REIT	-	79,852
Investment in Zeto, Inc.	<u>200,000</u>	<u>200,000</u>
Total investments	<u>\$ 11,545,097</u>	<u>\$ 13,806,696</u>

Included in investment (loss) income, net are the following:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 288,653	\$ 431,739
Unrealized (losses) gains, net	(3,474,085)	992,533
Realized gains, net	<u>1,726,941</u>	<u>429,287</u>
Total investment (loss) income, net	<u>\$ (1,458,491)</u>	<u>\$ 1,853,559</u>

4. Contributions Receivable

Contributions receivable represent unconditional promises to give and are stated at their fair value based on discounted cash flows. Management has established an allowance for doubtful accounts for those receivables it does not believe to be collectible. During the years ended June 30, 2022 and 2021, the Foundation wrote off \$0 and \$34,997, respectively, of contributions receivable.

Contributions are due as follows as of June 30:

	<u>2022</u>	<u>2021</u>
Less than one year	\$ 883,162	\$ 844,366
One to five years	<u>-</u>	<u>58,000</u>
Total	883,162	902,366
Less: Reserve for uncollectible amounts	<u>(30,015)</u>	<u>(33,015)</u>
Contributions receivable, net	<u>\$ 853,147</u>	<u>\$ 869,351</u>

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

5. Related Party Transactions

There are certain amounts due from the affiliates for revenue sharing, affiliate dues, and grants. As of June 30, 2022 and 2021, the affiliates owed the Epilepsy Foundation \$62,783 and \$73,776, respectively.

Additionally, during the years ended June 30, 2022 and 2021, the Epilepsy Foundation received support of approximately \$476,654 and \$320,488, respectively from members of the Board of Directors.

6. Beneficial Interests in Trust

The Foundation is a beneficiary under several perpetual trusts. While the Foundation cannot spend its interest in the corpus of these perpetual trusts, it does receive annual distributions which can be spent based on the donor's intent. The fair value of the Foundation's interest in the trust assets is recorded as a permanently restricted contribution at the time its interest becomes irrevocable. As a result of the separation with EFGLA, \$2,194,032 of the perpetual trust balance was transferred to EFGLA and recorded as net assets released from donor restrictions on the consolidated statements of activities for the Foundation during the year ended June 30, 2021. Changes in the perpetual trust's value are recorded on the consolidated statements of activities as a change in value of beneficial interests in trusts. At June 30, 2022 and 2021, the fair value of the perpetual trust investments was \$3,223,069 and \$3,763,469, respectively.

7. Net Assets Without Donor Restrictions

Net assets without donor restrictions are comprised of the following undesignated and board designated amounts:

	<u>2022</u>	<u>2021</u>
Undesignated	\$ 5,178,113	\$ 4,160,493
Board Designated:		
Chapter operations	754,650	754,650
Reserves	3,000,000	3,000,000
Future projects	<u>2,417,432</u>	<u>3,318,350</u>
Total net assets without donor restrictions	<u>\$ 11,350,195</u>	<u>\$ 11,233,493</u>

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

8. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Care and Cure Institute	\$ -	\$ 138,116
Pooled Income Fund	39,347	40,520
Advocacy and Services for Individuals, Families and Communities	538,650	542,089
Epilepsy Digital Experience Navigator (EDEN)	350,000	-
Robert W. Johnson	-	90,378
Uber	87,911	76,572
Epilepsy Ventures Fund (EVF)	994,650	273,273
Various States	47,090	80,713
Other	<u>13,698</u>	<u>96,101</u>
	2,071,346	1,337,762
Beneficial interest in perpetual trusts (restricted in perpetuity):		
General activities	1,707,215	1,845,933
Individuals or Organizations in Louisville, Kentucky	527,191	649,742
Research	<u>979,472</u>	<u>1,235,559</u>
	3,213,878	3,731,234
Otherwise restricted in perpetuity:		
Beneficial Interest in Assets held by a Community Foundation	38,202	38,203
Research	1,125,350	1,125,600
Education and Awareness	<u>1,000</u>	<u>1,000</u>
	<u>1,164,552</u>	<u>1,164,803</u>
Total net assets with donor restrictions	<u>\$ 6,449,776</u>	<u>\$ 6,233,799</u>

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

9. Net Assets Released from Restrictions

Net assets with donor restrictions were released from restrictions by incurring expenses or by the passage of time which satisfied the restricted purposes specified by the donors during the years ended June 30, 2022 and 2021. Additionally, certain net assets were released from donor restriction as a result of the separation with EFGLA during the year ended June 30, 2021.

The table below summarizes the net assets released from donor restrictions during the years ended June 30:

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions:		
Advocacy and Services for Individuals, Families and Communities	\$ 63,687	\$ 293,812
Education and Awareness (EFGLA)	-	41,000
Pooled Income Fund	1,173	-
Care & Cure Institute (EFGLA)	138,116	1,125,219
Lizzie Saft Fund (EFGLA)	-	321,329
Pipeline Conference	-	219,500
General activities (EFGLA)	-	2,153,032
Robert W. Johnson	90,378	409,622
Uber	13,661	1,467
Epilepsy Ventures Fund (EVF)	350,958	6,000
Various States	33,623	4,500
Other	<u>59,610</u>	<u>90,565</u>
Total net assets released from restrictions	<u>\$ 751,206</u>	<u>\$ 4,666,046</u>

10. Lease Commitment

The Foundation leased office space in Landover, Maryland under an operating lease. Effective June 1, 2021, the Foundation and landlord terminated the lease agreement. As part of the termination agreement, the Foundation paid the landlord \$1,200,000 and is released from making future rent payments.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

10. Lease Commitment (Continued)

The Foundation also has operating leases for office space in Arizona, Alabama, Florida, Iowa, Indiana, Mississippi, California, Oklahoma, Nebraska, Maryland, Utah, and West Virginia. These leases have terms expiring between 2021 and 2023. As of June 30, 2022 and 2021, there was \$0 and \$59, respectively, in deferred rent. Rent expense for the years ended June 30, 2022 and 2021 was \$224,961 and \$1,726,170, respectively. The rent expense for the year ended June 30, 2021 includes the \$1,200,000 termination payment for the Landover, Maryland office space. Rent expense is recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent asset or liability on the consolidated statements of financial position.

The future minimum lease payments required under the Foundation's noncancellable operating leases as of June 30, 2022 are as follows:

<u>Year Ending June 30,</u>	
2023	\$ <u>25,130</u>
	\$ <u><u>25,130</u></u>

11. Contingency

The Foundation receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2022. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

12. Line of Credit

In 2018, the Foundation obtained a \$5,219,000 line of credit with a financial institution. In the event of a withdrawal, certain investments of the Foundation are collateralized against the line of credit. The effective interest rate on the line of credit was 3.64% and 2.60% as of June 30, 2022 and 2021, respectively. There were no amounts outstanding related to the line of credit as of June 30, 2022 and 2021, respectively. No amounts were drawn on the line of credit during the year ended June 30, 2022 or 2021.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

13. Pension Plan

The Foundation has a 401(k) Thrift Plan under which the Foundation contributes four percent of each qualified employee's salary, plus up to a three percent matching contribution after 1000 hours and one year of service. Under the terms of this plan, all employees who meet minimum service and age requirements are eligible to participate. The Foundation's contributions to the pension plan for the years ended June 30, 2022 and 2021 were \$406,676 and \$440,189, respectively.

14. Allocation of Joint Costs

For the years ended June 30, 2022 and 2021, the Foundation incurred joint costs of approximately \$783,078 and \$852,529, respectively, related to educational information included in its fundraising appeals. Of those costs, \$227,093 and \$247,233, respectively, were allocated to fundraising expenses and \$555,985 and \$605,296, respectively, were allocated to Education and Awareness for the years then ended.

15. Grants Payable

The Foundation awards research grants to researchers based on the merit of proposals submitted to a review committee. Researchers who accept Foundation grants are required to report the amount expended as well as the results and conclusions of their work. The grants are awarded to the universities or other organizations to which the researchers are associated. The amounts owed to universities or other organizations were \$204,710 and \$597,210 at June 30, 2022 and 2021, respectively. All grants were considered payable within the next fiscal year as of June 30, 2022 and 2021.

16. Fair Value Measurement

In accordance with GAAP, the Foundation has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the consolidated statements of financial position are categorized based on the inputs to valuation techniques as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets which the Foundation has the ability to access.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

16. Fair Value Measurement (Continued)

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

In accordance with GAAP, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

The table below summarizes, by level within the fair value hierarchy on a recurring basis, the Foundation's investments as of June 30, 2022 and 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2022</u>
Asset Class:				
Money market funds	\$ 319,376	\$ -	\$ -	\$ 319,376
Common stocks	1,287,804	-	-	1,287,804
Mutual and exchange traded funds	9,407,284	-	-	9,407,284
Fixed income securities	-	86,918	-	86,918
Zeto, Inc.	-	-	200,000	200,000
Beneficial interest in assets held by a community foundation	-	-	38,202	38,202
Beneficial interest in perpetual trusts	-	-	3,184,867	3,184,867
	<u>11,014,464</u>	<u>86,918</u>	<u>3,423,069</u>	<u>14,524,451</u>
Investment in TCG BDC II, Inc. **				<u>243,715</u>
Total	<u>\$ 11,014,464</u>	<u>\$ 86,918</u>	<u>\$ 3,423,069</u>	<u>\$ 14,768,166</u>

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

16. Fair Value Measurement (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2021</u>
Asset Class:				
Money market funds	\$ 281,183	\$ -	\$ -	\$ 281,183
Common stocks	1,710,448	-	-	1,710,448
Mutual and exchange traded funds	11,232,870	-	-	11,232,870
Fixed income securities	-	99,728	-	99,728
Zeto, Inc. convertible note	-	-	200,000	200,000
Beneficial interest in assets held by a community foundation	-	-	32,235	32,235
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>3,731,234</u>	<u>3,731,234</u>
	13,224,501	99,728	3,963,469	17,287,698
Investment in TCG BDC II, Inc. **				202,615
Investment in Blackstone REIT **				<u>79,852</u>
Total	<u>\$ 13,224,501</u>	<u>\$ 99,728</u>	<u>\$ 3,963,469</u>	<u>\$ 17,570,165</u>

** - Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

Level 3 financial assets

The Foundation purchased a \$200,000 investment from Zeto, Inc, a private company, during the year ended June 30, 2018.

As a result of the separation with EFGLA, \$2,194,032 of the beneficial interest in perpetual trusts balance was transferred to EFGLA during the year ended June 30, 2021.

There were no transfers into or out of Level 3 financial assets during the years ended June 30, 2022 and 2021.

Investments valued using practical expedient

The Foundation invested \$53,155 in TCG BDC II, Inc. during the year-ended June 30, 2018. Additionally, the Foundation invested \$250,000 in the Blackstone REIT during the year-ended June 30, 2019. There were remaining commitments of approximately \$26,000 and \$47,000 for TCG BDC II, Inc., from the Foundation, for future investment in TCG BDC II, Inc, as of June 30, 2022 and 2021, respectively. There is no remaining commitment for the Blackstone REIT.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

17. Endowment

The Foundation's endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation 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 donor restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Donor restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. The Foundation authorizes expenditures based on its established endowment spending policy that is consistent with the donor restrictions.

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

Earnings on the endowment funds are appropriated for expenditure during the Foundation's budgeting process, whereby earnings are considered appropriated as earned.

Endowment net asset composition by type of fund as of June 30:

	<u>2022</u>	<u>2021</u>
Donor-restricted endowment funds	\$ 1,164,552	\$ 1,164,803
Beneficial interest in perpetual trusts	<u>3,184,867</u>	<u>3,731,234</u>
Total funds	<u>\$ 4,349,419</u>	<u>\$ 4,896,037</u>

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

17. Endowment (Continued)

Changes in endowment net assets for the year ended June 30:

	<u>2022</u>	<u>2021</u>
Endowment net assets, beginning of year	\$ 4,896,037	\$ 6,334,076
Investment (loss) income:		
Investment income	-	25,083
Net (depreciation) appreciation	<u>(546,368)</u>	<u>755,993</u>
Total investment (loss) income	<u>(546,368)</u>	<u>781,076</u>
Transfer of EFGLA endowment funds	-	(2,194,032)
Appropriation of endowment assets	<u>(250)</u>	<u>(25,083)</u>
Endowment net assets, end of year	<u>\$ 4,349,419</u>	<u>\$ 4,896,037</u>

Funds with Deficiencies

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 SPMIFA requires the Foundation to retain as fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. As of June 30, 2022 and 2021, there were no deficiencies. Deficiencies of this type can be the result of unfavorable market fluctuations occurring after the investment of donor restricted contributions and continued appropriations for certain programs that was deemed prudent by the Board of Directors.

The Foundation has interpreted applicable state trust law to allow for spending from underwater endowments in a prudent manner. There were no underwater endowment funds as of June 30, 2022 and 2021.

Return Objectives and Risk Parameters

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 the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in-perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested with the Foundation's other investments in a manner that is intended to provide a reasonable annual growth of principal with preservation of principal as its primary goal and generation of income as a secondary goal.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

17. Endowment (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation invests in a mixture of cash, equity, fixed income, and alternative funds, with a target of 55% equity, 35% fixed income, and 10% alternative funds. Additionally, the Foundation sets a guideline of a minimum of 40% equity and 25% fixed income, and no more than 10% cash, 70% equity, 50% fixed income, and 20% alternatives.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation tries to maximize the spending objectives of the endowment fund, by spending as much of the investment earnings as prudent and practical in any given year.

18. Fixed Assets

The Foundation's fixed assets as of June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Furniture and equipment	\$ 57,024	\$ 879,929
Computer software	484,719	5,365,796
Leasehold improvements	<u>-</u>	<u>174,726</u>
	541,743	6,420,451
Less: accumulated depreciation and amortization	<u>(400,256)</u>	<u>(5,902,986)</u>
Fixed assets, net	<u><u>\$ 141,487</u></u>	<u><u>\$ 517,465</u></u>

During the year-ended June 30, 2022, the Foundation disposed of \$5,878,708 in fixed assets no longer in use and recognized a loss on disposal of \$223,986. There were no disposals during the year-ended June 30, 2021.

19. Paycheck Protection Program (PPP) Loan

On April 20, 2020, the Foundation received a PPP Loan in the amount of \$2,001,450, and is a two-year loan with a maturity date of April 20, 2022. The PPP Loan bears an annual interest rate of 1%, and is unsecured and guaranteed by the Small Business Administration (SBA). The Foundation received forgiveness of the PPP Loan from the SBA on July 26, 2021 and concurrently recorded a gain on debt extinguishment in the consolidated statements of activities for the forgiveness of principal and accrued interest of \$2,001,450 during the year ended June 30, 2022.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

20. Discontinued Operations

Effective January 31, 2021, the Foundation separated with EFGLA. EFGLA assets and liabilities as of the separation date were transferred from the Foundation and are not included on the consolidated statements of financial position for the year ended June 30, 2021. Additionally, EFGLA expenses and revenues are no longer included on the Foundation's consolidated statement of activities as of the separation date. In accordance with GAAP, the Foundation recorded the excess of assets over liabilities that were transferred as a loss from discontinued operations on the consolidated statements of activities. EFGLA net assets with donor restrictions at the date of the separation are included in the net assets released from donor restrictions amount on the consolidated statements of activities. A summary of EFGLA branch's operations for the year ended June 30, 2021 is as follows:

	Year ended June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Contributions	\$ 146,831	\$ 49,482	\$ 196,313
Special events, net of direct expenses	521,597	1,015,661	1,537,258
Miscellaneous revenue	1,060	-	1,060
Donated clothing poundage revenue	274,476	-	274,476
Change in value of beneficial interests in trust	-	232,050	232,050
Total revenue	943,964	1,297,193	2,241,157
Expenses			
Program services:			
Research, Innovation and New Therapies	3,005	-	3,005
Public Health, Education and Awareness	174,398	-	174,398
Advocacy and Services for Individuals, Families and Communities	4,308,018	-	4,308,018
Total program services	4,485,421	-	4,485,421
Supporting services:			
Administrative	791,849	-	791,849
Fundraising	32,156	-	32,156
Total supporting services	824,005	-	824,005
Total expenses	5,309,426	-	5,309,426
Loss from discontinued operations	(4,365,462)	1,297,193	(3,068,269)
Net assets released from donor restrictions	3,640,580	(3,640,580)	-
Change in net assets	<u>\$ (724,882)</u>	<u>\$ (2,343,387)</u>	<u>\$ (3,068,269)</u>

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

21. Subsequent Events

In preparing these consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through February 14, 2023, the date the consolidated financial statements were issued.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2022

<u>Federal Granting Agency and Program Title</u>	<u>Pass-Through Entity</u>	<u>CFDA Number</u>	<u>Pass-Through to Subrecipients</u>	<u>Expenditures</u>
Department of Human and Health Services - Center for Disease Control: Improving Epilepsy Programs, Services and Outcomes Through Partnerships	N/A	93.850	\$ 354,008	\$ 3,801,185
Total expenditures of federal awards			\$ 354,008	\$ 3,801,185

Epilepsy Foundation of America (dba Epilepsy Foundation)

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2022

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Epilepsy Foundation of America (dba Epilepsy Foundation) (the Foundation), under programs of the federal government for the year ended June 30, 2022. The information in the Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Foundation.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. CFR Part 200, Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. The Foundation has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Report of Independent Auditors

Board of Directors
Epilepsy Foundation of America (dba Epilepsy Foundation)
Bowie, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Epilepsy Foundation of America (dba Epilepsy Foundation) (the Foundation), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 14, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies that we consider consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001, that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2022-001.

Foundation's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Foundation's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Foundation's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Vienna, Virginia
February 14, 2023

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Report of Independent Auditors

Board of Directors
Epilepsy Foundation of America (dba Epilepsy Foundation)
Bowie, Maryland

Report on Compliance for Each Major Federal Program ***Opinion on Each Major Federal Program***

We have audited the Foundation's compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on the Foundation's major federal program for the year ended June 30, 2022. The Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Foundation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (Government Auditing Standards); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Foundation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statues, regulations, rules and provisions of contracts or grant agreements applicable to the Foundation's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Foundation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Foundation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Foundation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Foundation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-002, 2022-003, 2022-004, and 2022-005. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Foundation's response to the noncompliance findings identified in our audit in the accompanying schedule of findings and questioned costs. The Foundation's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-002 and 2022-004 to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Foundation's response to the internal control over compliance findings identified in our audit described in the accompany schedule of findings and questioned costs. The Foundations' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Vienna, Virginia
February 14, 2023

Epilepsy Foundation of America (dba Epilepsy Foundation)

Schedule of Findings and Questioned Costs

For the year ended June 30, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting: Material weakness identified?	No
Significant deficiency identified not considered to be a material weakness?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for the major program:	Unmodified
Internal control over the major program: Material weakness identified?	Yes
Significant deficiency identified not considered to be a material weakness?	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR.200.516(a)?	Yes
Identification of major program:	

CFDA Number

93.850

Federal Granting Agency and Program Title

Department of Human and Health Services -
Center for Disease Control: Improving Epilepsy
Programs, Services and Outcomes Through
Partnerships

Dollar threshold used to distinguish between Type A and B programs:	\$750,000
Auditee qualified as a low-risk auditee?	Yes

Section II - Financial Statement Findings

Finding 2022-001: Significant Deficiency in Internal Control over Financial Reporting - Review of Alternative Investments and Convertible Notes Receivable

Criteria: Investments and noted receivable are required to be recorded at fair value and assessed for impairment at least annually.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Schedule of Findings and Questioned Costs (Continued)

Condition: During the audit for the year ended June 30, 2022, we identified a \$250,000 audit adjustment to remove an alternative investment purchased in the subsequent year from the investment balance, a \$540,000 audit adjustment to record the decrease in value of the beneficial interest in perpetual trust balance, and a \$225,000 audit adjustment to reclassify a convertible note receivable from the contributions receivable balance. We became aware that management did not perform an annual review over the valuation of alternative investments considered to be level 3 investments or investments valued using the net asset value per share practical expedient in the fair value hierarchy. Additionally, we became aware that management did not review convertible notes receivable agreements in conjunction with accounting guidance to determine the proper accounting treatment.

Context: We proposed and management recorded three audit adjustments related to alternative investments and notes receivable, as noted above.

Effect: There is a risk that unusual and non-recurring alternative investment transactions will not be accounted for in the correct period or valued in accordance with GAAP.

Cause: Due to a lack of review over investment transactions and a lack of understanding of appropriate treatment under GAAP.

Recommendation: We recommend that management implements reviews over all alternative investment balances and notes receivable agreements to ensure all balances are valued properly and accounted for correctly.

Views of Responsible Officials and Planned Corrective Action: See management's response at the Corrective Action Plan on pages 42-44.

Section III - Federal Award Findings and Questioned Costs

Finding 2022-002: Material Weakness over Reporting - Review of Required Financial and Progress Reports

Information on the Federal Program: Department of Human and Health - Center for Disease Control: Improving Epilepsy Programs, Services and Outcomes Through Partnerships, CFDA 93.850

Criteria: The Uniform Guidance requires organizations to establish internal controls to detect potential noncompliance.

Condition: Management has an established control in place in that the VP of Finance reviews the financial and progress reports prior to submission, but did not retain evidence of this review occurring during the year.

Cause: Due to a lack of policies and procedures regarding retention of review documentation and lack of awareness of the requirement.

Effect: Non-compliance with adequate review over required financial and progress reports.

Questioned Costs: There were no material questioned costs identified.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Schedule of Findings and Questioned Costs (Continued)

Context: For all reports chosen for testing in 2022, which included two quarterly FFRs (Federal Financial Report), an annual FFR, and an annual performance progress report, no evidence of approval was retained.

Repeat Finding: No.

Recommendation: We recommend that management establish procedures to document the review and approval performed over the required reports.

Views of Responsible Officials and Planned Corrective Action: See management's response at the Corrective Action Plan on pages 42-44.

Finding 2022-003: Non-Compliance over Reporting - Reporting of Expenditures in Required Financial Reports

Information on the Federal Program: Department of Human and Health - Center for Disease Control: Improving Epilepsy Programs, Services and Outcomes Through Partnerships, CFDA 93.850

Criteria: The Uniform Guidance requires organizations to submit required financial reports with accurate data pertaining to expenditures.

Condition: The underlying expenditures support provided for the quarterly and annual Federal Financial Report (FFRs) did not tie to the expenditures reported.

Cause: Due to a lack of effective review over required financial reports.

Effect: Non-compliance with accuracy of amounts reported in required financial reports.

Questioned Costs: There were no material questioned costs identified.

Context: For all financial reports chosen for testing in 2022, which included two quarterly FFR and an annual FFR, the underlying expenditures support provided did not tie to the expenditures reported with a variance of \$67,890.

Repeat Finding: No.

Recommendation: We recommend that management establish procedures to review and the financial reports in detail to ensure accuracy to underlying data.

Views of Responsible Officials and Planned Corrective Action: See management's response at the Corrective Action Plan on pages 42-44.

Finding 2022-004: Material Weakness over Allowable Costs - Review of Non-Payroll Expenditures

Information on the Federal Program: Department of Human and Health - Center for Disease Control: Improving Epilepsy Programs, Services and Outcomes Through Partnerships, CFDA 93.850

Criteria: The Uniform Guidance requires organizations to establish internal controls to detect potential noncompliance.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Schedule of Findings and Questioned Costs (Continued)

Condition: Management has an established control in place, in that all expenditures paid through the Concur system were reviewed and approved by an appropriate project manager, but did not retain evidence of this approval occurring during the year for 9 non-payroll expenditures chosen for testing.

Cause: Due to a lack of policies and procedures regarding retention of review documentation and lack of awareness of the requirement.

Effect: Non-compliance with adequate review over allowable costs.

Questioned Costs: There were no material questioned costs identified.

Context: All expenditures approved in the Concur payables system chosen for testing did not have retained evidence of approval, totaling 15% of the non-payroll expenditures tested.

Repeat Finding: No.

Recommendation: We recommend that management establish procedures to document the review and approval performed over non-payroll expenditures.

Views of Responsible Officials and Planned Corrective Action: See management's response at the Corrective Action Plan on pages 42-44.

Finding 2022-005: Material Weakness over Cash Management and Allowable Costs - Review of Cash Drawdowns

Information on the Federal Program: Department of Human and Health - Center for Disease Control: Improving Epilepsy Programs, Services and Outcomes Through Partnerships, CFDA 93.850

Criteria: The Uniform Guidance requires organizations to establish internal controls to detect potential noncompliance. The Uniform Guidance also requires organizations who receive funds on a cost reimbursement basis to only draw down funds for allowable expenditures under the grant.

Condition: Management has an established control in place, in that the VP of Finance reviews the calculation of expenditures not drawn down prior to the submission of the drawdown request. However, the control was ineffective to prevent and detect an erroneous expense journal entry, considered an unallowable expense and is an instance of noncompliance, from being included in the drawdown.

Cause: Due to a lack of policies and procedures regarding retention of review documentation and lack of awareness of the requirement.

Effect: Non-compliance with adequate review over cash management and allowable costs.

Questioned Costs: \$72,514 in known questioned costs were identified, as determined by management as a part of an inspection performed.

Context: For one cash drawdown chosen for testing of two (50%), there were expenses that had no supporting documentation and were unallowable under the grant.

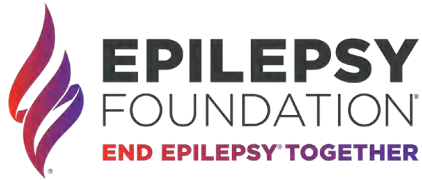
Repeat Finding: No.

Epilepsy Foundation of America (dba Epilepsy Foundation)

Schedule of Findings and Questioned Costs (Continued)

Recommendation: We recommend that management establish procedures review cash drawdowns in detail prior to submission and that all expenditures recorded to the grant have appropriate supporting documentation.

Views of Responsible Officials and Planned Corrective Action: See management's response at the Corrective Action Plan on pages 42-44.



Corrective Action Plan
Epilepsy Foundation of America (dba Epilepsy Foundation)
Year Ended June 30, 2022

Financial Statement Findings

Finding 2022-001: Significant Deficiency in Internal Control over Financial Reporting - Review of Alternative Investments and Convertible Notes Receivable

Finding: Investments and noted receivable are required to be recorded at fair value and assessed for impairment at least annually.

During the audit for the year ended June 30, 2022, we identified a \$250,000 audit adjustment to remove an alternative investment purchased in the subsequent year from the investment balance, a \$540,000 audit adjustment to record the decrease in value of the beneficial interest in perpetual trust balance, and a \$225,000 audit adjustment to reclassify a convertible note receivable from the contributions receivable balance. We became aware that management did not perform an annual review over the valuation of alternative investments considered to be level 3 investments or investments valued using the net asset value per share practical expedient in the fair value hierarchy. Additionally, we became aware that management did not review convertible notes receivable agreements in conjunction with accounting guidance to determine the proper accounting treatment.

Planned Corrective Action: Communications and a communications timeline have been developed whereby alternative investments will be contacted annually to assess fair market value and impairment.

Name and Person Responsible: Liz Schreiber (Project Manager, Research and Innovation) for Epilepsy Venture Fund Investments and Caro Marie Brown (Senior Director of Finance) for all other investments including perpetual trust balances and Rahel Rosner (Chief Financial and Operating Officer).

Anticipated Completion Date: February 28, 2023.

Federal Award Findings and Questioned Costs

Finding 2022-002: Material Weakness over Reporting - Review of Required Financial and Progress Reports

Information on the Federal Program: Department of Human and Health - Center for Disease Control: Improving Epilepsy Programs, Services and Outcomes Through Partnerships.

Finding: The Uniform Guidance requires organizations to establish internal controls to detect potential noncompliance.

Management has an established control in place in that the VP of Finance reviews the financial and progress reports prior to submission, but did not retain evidence of this review occurring during the year.

Planned Corrective Action: As the Center for Disease Control's reporting system has changed and specific amounts are entered into the system directly, we have developed a new control. A screen-shot of the submission will be provided to the Chief Financial and Operating Officer, along with a Sage generated report with the back details and corresponding amount prior to clicking on the submit button. The Chief Financial and Operating Officer will review and sign off on the filing. An additional screenshot will be taken after the filing for record management purposes.

Name and Person Responsible: Caro Marie Brown (Senior Director of Finance) and Rahel Rosner (Chief Financial and Operating Officer).

Anticipated Completion Date: April 30, 2023.

Finding 2022-003: Non-Compliance over Reporting - Reporting of Expenditures in Required Financial Reports

Information on the Federal Program: Department of Human and Health - Center for Disease Control: Improving Epilepsy Programs, Services and Outcomes Through Partnerships.

Finding: The Uniform Guidance requires organizations to submit required financial reports with accurate data pertaining to expenditures.

The underlying expenditures support provided for the quarterly and annual FFRs did not tie to the expenditures reported.

Planned Corrective Action: Ensure all the transactions for the period (quarter) are accounted for including the cash and credit cards and also, that the period is closed immediately after the statements' preparation.

Name and Person Responsible: Caro Marie Brown (Senior Director of Finance) and Lindey Camerata (Controller).

Anticipated Completion Date: March 31, 2023.

Finding 2022-04: Material Weakness over Allowable Costs - Review of Non-Payroll Expenditures

Information on the Federal Program: Department of Human and Health - Center for Disease Control: Improving Epilepsy Programs, Services and Outcomes Through Partnerships.

Finding: The Uniform Guidance requires organizations to establish internal controls to detect potential noncompliance.

Management has an established control in place, in that all expenditures paid through the Concur system were reviewed and approved by an appropriate project manager, but did not retain evidence of this approval occurring during the year for 9 non-payroll expenditures chosen for testing.

Planned Corrective Action: We had a number of technical issues with Concur which resulted in a cessation of use in January 2022 and a transition to PN3 which was being used for payables. We transitioned to PN3 in January 2022 and are no longer using Concur. PN3 maintains all audit trails

Name and Person Responsible: Caro Brown (Senior Director of Finance), June Nolan (Accounts Payable Accountant), and Lindey Camerata (Controller).

Anticipated Completion Date: Completed in January 2022.

Finding 2022-05: Material Weakness over Cash Management and Allowable Costs - Review of Cash Drawdowns

Information on the Federal Program: Department of Human and Health - Center for Disease Control: Improving Epilepsy Programs, Services and Outcomes Through Partnerships.

Finding: The Uniform Guidance requires organizations to establish internal controls to detect potential noncompliance. The Uniform Guidance also requires organizations who receive funds on a cost reimbursement basis to only draw down funds for allowable expenditures under the grant.

Planned Corrective Action: A corrective action was taken and the Foundation returned the funds drawn down to the Department of Treasury. The Foundation has implemented an additional confirmation process where reimbursable expenses will be reviewed along with the draw down prior to draw down. This additional step will ensure that erroneous coding does not result in a funds drawdown.


Name and Person Responsible: Caro Marie Brown (Senior Director of Finance), June Nolan (Accounts Payable Accountant), and Lindey Camerata (Controller).

Anticipated Completion Date: February 2023.

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Caro Brown, Senior Director of Finance
cbrown@efa.org

DocuSigned by:

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Rahel Rosner, Chief Financial and Operating Officer
rrosner@efa.org