



Johnson Lambert LLP
cpas + consultants

Epilepsy Foundation of America (dba Epilepsy Foundation)

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

*Years ended June 30, 2018 and 2017
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, 2018 and 2017

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Report of Independent Auditors

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

Report on the Consolidated Financial Statements

We have audited the accompanying 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, 2018 and 2017 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Foundation as of June 30, 2018 and 2017 and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter - Other Financial Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 28 is presented for purposes of additional analysis as required by the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2018, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Vienna, Virginia
November 11, 2018

Epilepsy Foundation of America
(dba Epilepsy Foundation)

Consolidated Statements of Financial Position

	June 30,	
	2018	2017
Assets		
Cash and cash equivalents	\$ 3,299,044	\$ 619,535
Cash and cash equivalents - restricted	1,683,979	-
Investments	7,937,983	7,323,148
Contributions receivable, net	1,611,047	1,425,804
Government grants receivable	411,789	673,784
Due from affiliates	125,266	134,210
Prepaid expenses	312,110	313,608
Inventory	25,182	22,678
Fixed assets, net	682,545	693,142
Deferred rent asset	230,104	318,675
Beneficial interest in perpetual trusts	5,152,979	3,317,904
Beneficial interest in assets held by a community foundation	29,964	29,320
Total assets	\$ 21,501,992	\$ 14,871,808
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,227,971	\$ 863,781
Grants payable	590,318	731,713
Deferred revenue	100,412	19,083
Total liabilities	1,918,701	1,614,577
Net assets:		
Unrestricted	7,369,868	7,011,129
Temporarily restricted	5,863,878	1,773,277
Permanently restricted	6,349,545	4,472,825
Total net assets	19,583,291	13,257,231
Total liabilities and net assets	\$ 21,501,992	\$ 14,871,808

See accompanying notes to the consolidated financial statements.

Epilepsy Foundation of America
(dba Epilepsy Foundation)

Consolidated Statement of Activities

Year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Contributions	\$ 8,836,161	\$ 2,645,287	\$ -	\$ 11,481,448
Inherent contributions from acquisitions	1,238,533	2,417,837	1,840,433	5,496,803
Government grants	3,291,311	-	-	3,291,311
PCORI contracts	478,662	-	-	478,662
Affiliate fees	390,002	-	-	390,002
Contributed services and materials	359,316	-	-	359,316
Sales of materials, net of direct expenses of \$4,848	10,694	-	-	10,694
Special events, net of direct expenses of \$680,503	1,470,425	-	-	1,470,425
Investment income	359,227	14,738	-	373,965
Miscellaneous revenue	144,197	-	-	144,197
Donated clothing poundage revenue	539,488	-	-	539,488
Change in value of beneficial interests in trust	(19,344)	-	36,287	16,943
Total revenue	17,098,672	5,077,862	1,876,720	24,053,254
Net assets released from donor restrictions	987,261	(987,261)	-	-
Total revenue	18,085,933	4,090,601	1,876,720	24,053,254
Expenses				
Program services:				
Research, Innovation and New Therapies	3,080,292	-	-	3,080,292
Education and Awareness	3,634,222	-	-	3,634,222
Advocacy and Services for Individuals, Families and Communities	8,036,010	-	-	8,036,010
Total program services	14,750,524	-	-	14,750,524
Supporting services:				
Administrative	1,021,268	-	-	1,021,268
Fundraising	1,955,402	-	-	1,955,402
Total supporting services	2,976,670	-	-	2,976,670
Total expenses	17,727,194	-	-	17,727,194
Change in net assets	358,739	4,090,601	1,876,720	6,326,060
Net assets, beginning of year	7,011,129	1,773,277	4,472,825	13,257,231
Net assets, end of year	\$ 7,369,868	\$ 5,863,878	\$ 6,349,545	\$ 19,583,291

See accompanying notes to the consolidated financial statements.

Epilepsy Foundation of America
(dba Epilepsy Foundation)

Consolidated Statement of Activities

Year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Contributions	\$ 6,018,466	\$ 2,842,737	\$ -	\$ 8,861,203
Government grants	3,275,184	-	-	3,275,184
PCORI contracts	512,284	-	-	512,284
Affiliate fees	373,057	-	-	373,057
Contributed services and materials	91,533	-	-	91,533
Sales of materials, net of direct expenses of \$8,510	13,480	-	-	13,480
Special events, net of direct expenses of \$656,137	931,510	80	-	931,590
Investment income	332,512	98,392	-	430,904
Miscellaneous revenue	26,804	4,310	-	31,114
Donated clothing poundage revenue	548,929	-	-	548,929
Change in value of beneficial interests in trusts	<u>(20,428)</u>	<u>(5,264)</u>	<u>182,069</u>	<u>156,377</u>
Total revenue	12,103,331	2,940,255	182,069	15,225,655
Net assets released from donor restrictions	<u>2,217,519</u>	<u>(2,217,519)</u>	<u>-</u>	<u>-</u>
Total revenue	14,320,850	722,736	182,069	15,225,655
Expenses				
Program services:				
Research, Innovation and New Therapies	2,298,660	-	-	2,298,660
Education and Awareness	2,968,751	-	-	2,968,751
Advocacy and Services for Individuals, Families and Communities	<u>7,231,283</u>	<u>-</u>	<u>-</u>	<u>7,231,283</u>
Total program services	12,498,694	-	-	12,498,694
Supporting services:				
Administrative	993,904	-	-	993,904
Fundraising	<u>2,110,131</u>	<u>-</u>	<u>-</u>	<u>2,110,131</u>
Total supporting services	3,104,035	-	-	3,104,035
Total expenses	<u>15,602,729</u>	<u>-</u>	<u>-</u>	<u>15,602,729</u>
Change in net assets	(1,281,879)	722,736	182,069	(377,074)
Net assets, beginning of year	<u>8,293,008</u>	<u>1,050,541</u>	<u>4,290,756</u>	<u>13,634,305</u>
Net assets, end of year	<u>\$ 7,011,129</u>	<u>\$ 1,773,277</u>	<u>\$ 4,472,825</u>	<u>\$ 13,257,231</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, 2018

	<u>Program Services</u>				<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Research, Innovation and New Therapies</u>	<u>Education and Awareness</u>	<u>Advocacy and Services for Individuals, Families and Communities</u>	<u>Total Program Services</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	
Salaries	\$ 597,850	\$ 1,015,631	\$ 3,228,942	\$ 4,842,423	\$ 436,838	\$ 700,667	\$ 1,137,505	\$ 5,979,928
Temporary personnel	2,173	3,942	17,211	23,326	33,820	2,788	36,608	59,934
Employee benefits	<u>127,849</u>	<u>220,612</u>	<u>717,096</u>	<u>1,065,557</u>	<u>96,631</u>	<u>158,684</u>	<u>255,315</u>	<u>1,320,872</u>
Total salary and benefit expenses	<u>727,872</u>	<u>1,240,185</u>	<u>3,963,249</u>	<u>5,931,306</u>	<u>567,289</u>	<u>862,139</u>	<u>1,429,428</u>	<u>7,360,734</u>
Professional fees and consultants	696,612	1,133,628	1,705,453	3,535,693	107,490	416,333	523,823	4,059,516
Contributed services	-	241,895	-	241,895	117,421	-	117,421	359,316
Membership	3,214	1,056	9,327	13,597	2,966	9,514	12,480	26,077
Supplies and materials	8,753	381,795	90,921	481,469	4,402	204,841	209,243	690,712
Telephone	17,155	19,792	65,403	102,350	5,127	16,189	21,316	123,666
Postage and shipping	4,194	141,529	23,563	169,286	2,947	81,192	84,139	253,425
Occupancy	91,704	115,490	262,933	470,127	27,432	79,653	107,085	577,212
Equipment maintenance	30,806	185,324	38,657	254,787	34,553	153,564	188,117	442,904
Printing and publications	21,695	18,194	134,851	174,740	1,290	15,520	16,810	191,550
Travel and meetings	552,387	54,582	610,192	1,217,161	14,418	78,950	93,368	1,310,529
Payments to affiliates	-	34,200	934,400	968,600	-	-	-	968,600
Awards and grants	864,373	-	47,806	912,179	-	-	-	912,179
Miscellaneous	1,186	306	15,402	16,894	118,886	1,976	120,862	137,756
Bad debt	10,988	12,063	24,374	47,425	3,104	6,470	9,574	56,999
Depreciation and amortization	<u>49,353</u>	<u>54,183</u>	<u>109,479</u>	<u>213,015</u>	<u>13,943</u>	<u>29,061</u>	<u>43,004</u>	<u>256,019</u>
	<u>2,352,420</u>	<u>2,394,037</u>	<u>4,072,761</u>	<u>8,819,218</u>	<u>453,979</u>	<u>1,093,263</u>	<u>1,547,242</u>	<u>10,366,460</u>
Total	<u>\$ 3,080,292</u>	<u>\$ 3,634,222</u>	<u>\$ 8,036,010</u>	<u>\$ 14,750,524</u>	<u>\$ 1,021,268</u>	<u>\$ 1,955,402</u>	<u>\$ 2,976,670</u>	<u>\$ 17,727,194</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, 2017

	<u>Program Services</u>				<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Research, Innovation and New Therapies</u>	<u>Education and Awareness</u>	<u>Advocacy and Services for Individuals, Families and Communities</u>	<u>Total Program Services</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	
Salaries	\$ 500,670	\$ 912,477	\$ 2,321,398	\$ 3,734,545	\$ 562,404	\$ 643,597	\$ 1,206,001	\$ 4,940,546
Temporary personnel	-	-	19,222	19,222	1,188	2,871	4,059	23,281
Employee benefits	112,456	206,123	535,774	854,353	128,994	147,963	276,957	1,131,310
Total salary and benefit expenses	<u>613,126</u>	<u>1,118,600</u>	<u>2,876,394</u>	<u>4,608,120</u>	<u>692,586</u>	<u>794,431</u>	<u>1,487,017</u>	<u>6,095,137</u>
Professional fees and consultants	198,328	901,451	1,624,578	2,724,357	110,958	567,696	678,654	3,403,011
Contributed services	-	75,000	-	75,000	16,533	-	16,533	91,533
Membership	2,787	1,222	5,512	9,521	2,892	8,416	11,308	20,829
Supplies and materials	4,645	267,791	43,524	315,960	4,661	246,197	250,858	566,818
Telephone	11,664	15,871	50,271	77,806	4,954	14,445	19,399	97,205
Postage and shipping	185	109,987	17,743	127,915	1,378	148,861	150,239	278,154
Occupancy	70,050	88,164	239,570	397,784	29,755	92,182	121,937	519,721
Equipment maintenance	20,148	171,935	27,778	219,861	17,464	54,222	71,686	291,547
Printing and publications	6,514	28,598	119,945	155,057	1,926	27,205	29,131	184,188
Travel and meetings	180,976	76,884	564,217	822,077	15,776	105,590	121,366	943,443
Payments to affiliates	-	48,377	1,161,436	1,209,813	-	3,385	3,385	1,213,198
Awards and grants	1,137,661	-	26,785	1,164,446	-	-	-	1,164,446
Miscellaneous	1,185	190	11,899	13,274	73,192	334	73,526	86,800
Bad debt	-	-	300,000	300,000	-	-	-	300,000
Depreciation and amortization	51,391	64,681	161,631	277,703	21,829	47,167	68,996	346,699
	<u>1,685,534</u>	<u>1,850,151</u>	<u>4,354,889</u>	<u>7,890,574</u>	<u>301,318</u>	<u>1,315,700</u>	<u>1,617,018</u>	<u>9,507,592</u>
Total	<u>\$ 2,298,660</u>	<u>\$ 2,968,751</u>	<u>\$ 7,231,283</u>	<u>\$ 12,498,694</u>	<u>\$ 993,904</u>	<u>\$ 2,110,131</u>	<u>\$ 3,104,035</u>	<u>\$ 15,602,729</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,	
	2018	2017
Cash flow from operating activities		
Net change in net assets	\$ 6,326,060	\$ (377,074)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation & amortization	256,018	346,699
Change in allowance for doubtful accounts	22,826	(51,772)
Net realized and unrealized (gain) on investments	(152,131)	(272,691)
Change in beneficial interest in perpetual trusts	(35,642)	(180,663)
Change in beneficial interest in assets held by a community foundation	(644)	(1,406)
Inherent contributions from acquisitions	(5,496,803)	-
Changes in operating assets and liabilities:		
Contributions receivable	(91,526)	(663,586)
Government grants receivable	261,995	(271,241)
Due from affiliates	8,944	(3,486)
Prepaid expenses	56,527	(160,942)
Inventory	(2,504)	(16,543)
Deferred rent	88,571	36,622
Accounts payable and accrued liabilities	154,446	(72,590)
Due to affiliates	-	(350,046)
Grants payable	(178,270)	(212,624)
Deferred revenue	81,329	5,263
Net cash flows provided by (used in) operating activities	1,299,196	(2,246,080)
Cash flow from investing activities		
Purchase of property and equipment	(245,421)	(338,939)
Purchase of investments	(493,323)	(6,908,098)
Proceeds from sale of investments	30,619	7,079,175
Investments acquired from acquisitions	145,270	-
Cash acquired from acquisitions	3,627,147	-
Net cash provided by (used in) investing activities	3,064,292	(167,862)
Net change in cash and cash equivalents	4,363,488	(2,413,942)
Cash and cash equivalents, beginning of year	619,535	3,033,477
Cash and cash equivalents, end of year	\$ 4,983,023	\$ 619,535
Cash and cash equivalents:		
Cash	\$ 3,299,044	\$ 619,535
Cash and cash equivalents - restricted	1,683,979	-
	\$ 4,983,023	\$ 619,535

See accompanying notes to the consolidated financial statements.

Epilepsy Foundation of America
(dba Epilepsy Foundation)

Notes to Consolidated Financial Statements

Years ended June 30, 2018 and 2017

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 ten 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.

The Epilepsy Research Foundation (the Research Foundation) was organized in June 2003 as a Commonwealth of Virginia not-for-profit corporation, to be a supporting organization to both the Epilepsy Foundation and The Epilepsy Therapy Project (later renamed the Epilepsy Therapy Group), to facilitate joint fundraising efforts and develop an innovative research program. Subsequently, the Epilepsy Foundation merged with the Epilepsy Therapy Group and the Research Foundation remains a supporting organization of the consolidated entity.

During April 2016, two Delaware limited liability companies were formed (Epilepsy Foundation of America (Utah) LLC and Epilepsy Foundation of America (Oklahoma) LLC). The Epilepsy Alliance of Utah and the Epilepsy Association of America (Oklahoma) then merged into their respective LLCs, with the LLC being the surviving entity, and the Epilepsy Foundation is the sole member of each LLC.

During the 2018 fiscal year, the Epilepsy Foundation acquired the Epilepsy Foundation Chesapeake Region (Chesapeake), the Epilepsy Foundation Western Ohio (Western Ohio), the Epilepsy Foundation Mississippi (Mississippi), the Epilepsy Foundation Alabama (Alabama), the Epilepsy Foundation of Greater Los Angeles (LA), and the Iowa and Nebraska territory of the Epilepsy Foundation North Central Illinois, Iowa & Nebraska (Iowa/Nebraska). These financial statements include the results of operations subsequent to the effective dates of the acquisitions. See Note 19 for further details regarding these acquisitions.

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). Financial Accounting Standards Board (FASB) ASC 958, *Not-for-Profit Entities*.

Epilepsy Foundation of America
(dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

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

Principles of consolidation

These financial statements include the accounts of the Epilepsy Foundation, the Epilepsy Research Foundation, Utah and Oklahoma, (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.

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, and excluding money market funds held by investment managers in the amount of \$121,020 and \$105,802 for the years ended June 30, 2018 and 2017, respectively.

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.

\$1,683,979 and \$0 are in cash and cash equivalents are contractually restricted for the Cure and Cash Institute by the donor as of June 30, 2018 and 2017, respectively.

Investments

Investments are recorded at fair value.

Realized and unrealized gains and losses, net are included in investment income in the consolidated statements of activities.

Receivables

Contribution receivables 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.

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.

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

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 and Oklahoma are disregarded entities for tax purposes. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

For the years ended June 30, 2018 and 2017, the Epilepsy Foundation and the Epilepsy Research Foundation have documented their consideration for reporting uncertainty in income taxes and has 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 trust

Beneficial interests in 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 asset classification

The net assets are reported in three groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Foundation and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. A contribution is reported as unrestricted if a restriction is fulfilled in the same time period it is received.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by the Foundation.

Epilepsy Foundation of America
(dba Epilepsy Foundation)

Notes to Consolidated Financial Statements (Continued)

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

Contributions and bequests

Contributions are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions are recognized as unrestricted support 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 temporarily restricted net assets in the accompanying consolidated financial statements. Bequests are recorded as revenue when the associated agreement becomes irrevocable in nature.

Contributed services

Contributed services, which are comprised primarily of skilled consulting services, are recorded based on the estimated fair value of the services performed when received.

Contracts and grants

Grant and contract income is recorded when the associated expenses are incurred, using the cost-reimbursement basis. 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 exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Donated clothing

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

Affiliate fees

Affiliate fees are recorded as revenue during the time period of the Foundation's agreement with the affiliate, which generally coincides with the Foundation's fiscal year.

Special events

Special events are recorded as revenue when the associated event occurs. Furthermore, special events revenue is presented net of direct expenses associated with the events.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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.

Epilepsy Foundation of America
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Notes to Consolidated Financial Statements (Continued)

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

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. Accordingly, certain costs have been allocated among the programs and supporting services benefited. These costs have been allocated based on studies of employee time and other reasonable methodologies.

Fair value FASB ASC 820 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.

The Foundation accounts for a significant portion of their financial instruments at fair value or considers fair value in their measurement.

Recent Accounting Standards

The Foundation has elected to early adopt the Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2018-13 *Disclosure Framework-Changes to the Disclosure requirements for Fair Value Measurement*, effective for the year ending June 30, 2018. The adoption of this standard has reduced disclosure requirements regarding assets measured at Level 3 of the fair value hierarchy. See Note 16, which reflects the reduced disclosure requirements, for further details.

Reclassifications

Certain 2017 balances have been reclassified to conform to the 2018 presentation.

2. Investments

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

	2018	2017
Money market funds	\$ 121,020	\$ 105,802
Common stocks	1,863,257	1,611,994
Mutual and exchange traded funds	5,358,958	5,260,561
Fixed income securities	341,593	314,191
Investment in TCG BDC II, Inc.	53,155	-
Shares of Poliwogg	-	30,600
Investment in Zeto, Inc.	200,000	-
Total investments	\$ 7,937,983	\$ 7,323,148

Epilepsy Foundation of America
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Notes to Consolidated Financial Statements (Continued)

2. Investments (Continued)

Included in investment income are the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 221,834	\$ 158,213
Unrealized gains (losses), net	80,650	(1,000,868)
Realized gains, net	<u>71,481</u>	<u>1,273,559</u>
Total investment income	<u>\$ 373,965</u>	<u>\$ 430,904</u>

3. 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, 2018 and 2017, the Foundation wrote off \$57,000 and \$300,000, respectively, of contributions receivable.

Contributions are due as follows as of June 30:

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 1,419,533	\$ 1,092,464
One to five years	<u>284,600</u>	<u>403,600</u>
Total	1,704,133	1,496,064
Less: Reserve for uncollectible amounts	<u>(93,086)</u>	<u>(70,260)</u>
Contributions receivable, net	<u>\$ 1,611,047</u>	<u>\$ 1,425,804</u>

4. Due (To) From Affiliates

There are certain amounts due (to) from the affiliates for revenue sharing, affiliate dues, and grants. As of June 30, 2018 and 2017, the affiliates owed the Epilepsy Foundation \$125,266 and \$134,210, respectively. Additionally, as of June 30, 2018 and 2017, the Epilepsy Foundation owed the affiliates \$205,976 and \$66,517, respectively.

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Notes to Consolidated Financial Statements (Continued)

5. Beneficial Interests in Trust

A summary of the types of irrevocable interest in trusts which the Epilepsy Foundation has recorded are as follows:

- **Perpetual Trusts** - The Epilepsy Foundation is a beneficiary under several perpetual trusts. While the Epilepsy 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 Epilepsy Foundation's interest in the trust assets is recorded as a permanently restricted contribution at the time its interest becomes irrevocable. Changes in the perpetual trust's value are recorded on the consolidated statements of activities as a change in value of split interest agreements. At June 30, 2018 and 2017, the fair value of the perpetual trust investments was \$5,152,979 and \$3,317,904, respectively.
- **Pooled Income** - The Epilepsy Foundation maintains a pooled income fund. Donors can contribute to the fund and receive the income earned until their death, at which time, the assets are available to the Epilepsy Foundation. Donations to the pooled income fund are recorded at their fair value when received, discounted for the estimated time period until the donor's death. The difference between the fair value of the assets when received and the revenue recognized is recorded as deferred revenue, which is then amortized over the life expectancy of the donors. At June 30, 2018 and 2017, the market value of the pooled income fund investments was \$392,361 and \$378,186, respectively. Furthermore, the related deferred revenue was \$19,131 and \$19,083 as of June 30, 2018 and 2017, respectively.
- **Charitable Gift Annuities** - Donors contribute assets to the Epilepsy Foundation in exchange for distributions of a fixed amount annually for life. A liability is recorded at the present value of future cash flows expected to be paid to the donor. The difference between the fair value of the assets when received and the related liability is recognized as contribution revenue. At June 30, 2018 and 2017, the market value of the charitable gift annuity investments was \$82,178 and \$99,479, respectively. Furthermore, the related liability was \$90,022 and \$93,910 as of June 30, 2018 and 2017, respectively, which is recorded under accounts payable and accrued liabilities on the consolidated statements of financial position.

Epilepsy Foundation of America
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Notes to Consolidated Financial Statements (Continued)

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Next Generation Therapies Campaign	\$ 2,384,900	\$ -
Research	-	628,905
Care and Cure Institute	1,672,104	-
Pooled Income Fund	355,857	341,167
Advocacy and Services for Individuals, Families and Communities	530,931	238,296
Education and Awareness	378,003	397,523
Seizure Diary	-	92,386
Lizzie Saft Fund	353,829	-
Orange County Care & Cure	188,254	-
Other	-	75,000
	<u> </u>	<u> </u>
Total temporarily restricted net assets	<u>\$ 5,863,878</u>	<u>\$ 1,773,277</u>

7. Net Assets Released from Restrictions

The following temporarily restricted net assets were released from donor restrictions by incurring expenses or by the passage of time which satisfied the restricted purposes specified by the donors:

	<u>2018</u>	<u>2017</u>
Next Generation Therapies Campaign	\$ 272,842	\$ -
Research	-	1,125,803
Pooled Income Fund	-	14,982
Advocacy and Services for Individuals, Families and Communities	271,263	376,993
Education and Awareness	225,770	692,127
Seizure Diary	142,386	7,614
Other	75,000	-
	<u> </u>	<u> </u>
Total net assets released from restrictions	<u>\$ 987,261</u>	<u>\$ 2,217,519</u>

8. Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Perpetual Trusts:		
General activities	\$ 3,669,302	\$ 1,834,227
Individuals or Organizations in Louisville, Kentucky	494,666	494,666
Next Generation Therapies Campaign	989,011	989,011
Beneficial Interest in Assets Held by Others	29,964	29,320
Next Generation Therapies Campaign	1,125,601	1,125,601
Education and Awareness	41,001	-
	<u> </u>	<u> </u>
Total permanently restricted net assets	<u>\$ 6,349,545</u>	<u>\$ 4,472,825</u>

Epilepsy Foundation of America
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Notes to Consolidated Financial Statements (Continued)

9. Lease Commitment

The Foundation leases office space under an operating lease, with a remaining noncancellable term in excess of one year. The lease was amended after June 30, 2018. See Note 21 for further details. 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.

As of June 30, 2018 and 2017, there was \$230,104 and \$318,675, respectively, in deferred rent. Rent expense for the years ended June 30, 2018 and 2017 was \$388,466 and \$384,031, respectively.

The Foundation also has operating leases for office space in Arizona, Alabama, Iowa, Indiana, Mississippi, California, Oklahoma and Nebraska. These leases have terms expiring between 2019 and 2022.

The future minimum lease payments required under the Foundation's noncancellable operating leases as of June 30, 2018 are approximately as follows:

<u>Year Ending June 30.</u>	
2019	\$ 438,080
2020	504,817
2021	541,033
2022	536,075
2023	473,993
Thereafter	<u>2,948,743</u>
	<u>\$ 5,442,741</u>

10. 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 2018. 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.

Epilepsy Foundation of America
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Notes to Consolidated Financial Statements (Continued)

11. Line of Credit

In 2018, the Foundation obtained a \$5,219,000 line of credit with a financial institution. Certain investments of the Foundation are collateralized against the line of credit. The effective interest rate on the line of credit was 4.76% as of June 30, 2018. There were no amounts outstanding related to the line of credit as of June 30, 2018 and no amounts drawn on the line of credit for the year then ended.

12. 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. 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, 2018 and 2017 were \$342,884 and \$256,824, respectively.

13. Beneficial Interest in Assets Held by a Community Foundation

As part of the April 2016 merger with Oklahoma, the Foundation acquired assets held by the Oklahoma City Community Foundation for the benefit of the Epilepsy Foundation. When a nonprofit transfers assets to a charitable trust or community foundation in which the resource provider names itself as beneficiary, the economic benefit of the transferred asset remains with the resource provider.

The asset received in exchange is a beneficial interest in assets held by others, measured at the fair value of the net asset contributed. These designated funds are valued at \$29,964 and \$29,320 as of June 30, 2018 and 2017, respectively. Changes in the value are recognized in the consolidated statement of activities as "change in value of split interest agreements." Cash distributions are made based on five percent of the average market value of the fund, which will be calculated on a rolling quarter average of the previous 12 quarters.

An additional fund exists at a community foundation that does not meet the criteria of a beneficial interest in funds held by others. As such, these assets are not recorded by the Foundation and are excluded from the consolidated statement of financial position.

14. Allocation of Joint Costs

For the years ended June 30, 2018 and 2017, the Foundation incurred joint costs of approximately \$795,870 and \$718,000, respectively, related to educational information included in its fundraising appeals. Of those costs, \$234,040 and \$319,360, respectively, were allocated to fundraising expenses and \$561,830 and \$398,640, respectively, were allocated to Public Health Education for the years then ended.

Epilepsy Foundation of America
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Notes to Consolidated Financial Statements (Continued)

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 \$590,318 and \$731,713 at June 30, 2018 and 2017, respectively. All grants were considered payable within the next fiscal year as of June 30, 2018 and 2017.

16. Fair Value Measurement

In accordance with GAAP, the Foundation has categorized their 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.

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.

Epilepsy Foundation of America
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Notes to Consolidated Financial Statements (Continued)

16. Fair Value Measurement (Continued)

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

- Common stocks and fixed income securities - Fair value is based on quoted market prices.
- Mutual funds and exchange-traded funds - Fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.
- Money market funds - Fair value is equal to the reported net asset value of the fund.

The table below summarizes, by level within the fair value hierarchy on a recurring basis, the Foundation's investments as of June 30, 2018 and 2017:

	Level 1	Level 2	Level 3	Total June 30, 2018
Asset Class:				
Money market funds	\$ 121,020	\$ -	\$ -	\$ 121,020
Common stocks	1,863,257	-	-	1,863,257
Mutual and exchange traded funds	5,358,958	-	-	5,358,958
Fixed income securities	-	341,593	-	341,593
Zeto, Inc. convertible note	-	-	200,000	200,000
Beneficial interest in assets held by a community foundation	-	-	29,964	29,964
Beneficial interest in perpetual trusts	-	-	5,152,979	5,152,979
	7,343,235	341,593	5,382,943	13,067,771
Investment in TCG BDC II, Inc. **	-	-	-	53,155
Total	<u>\$ 7,343,235</u>	<u>\$ 341,593</u>	<u>\$ 5,382,943</u>	<u>\$ 13,120,926</u>

	Level 1	Level 2	Level 3	Total June 30, 2017
Asset Class:				
Money market funds	\$ 105,802	\$ -	\$ -	\$ 105,802
Common stocks	1,611,994	-	-	1,611,994
Mutual and exchange traded funds	5,260,561	-	-	5,260,561
Fixed income securities	-	314,191	-	314,191
Shares of Poliwogg	-	-	30,600	30,600
Beneficial interest in assets held by a community foundation	-	-	29,320	29,320
Beneficial interest in perpetual trusts	-	-	3,317,904	3,317,904
Total	<u>\$ 6,978,357</u>	<u>\$ 314,191</u>	<u>\$ 3,377,824</u>	<u>\$ 10,670,372</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.

Epilepsy Foundation of America
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Notes to Consolidated Financial Statements (Continued)

16. Fair Value Measurement (Continued)

Level 3 Financial Assets

The Foundation purchased a \$200,000 investment from Zeto, Inc, a private company, during the year ended June 30, 2018. The note will be converted into \$250,000 in shares of Zeto, Inc stock upon the first issuance of Zeto, Inc. stock. The date of conversion is not practically determinable at this time.

Additionally, the Foundation invested \$53,155 in TCG BDC II, Inc. during the year-ended June 30, 2018. There is a remaining commitment of approximately \$210,000 for TCG BDC II, Inc., from the Foundation, for future investment in TCG BDC II, Inc. as of June 30, 2018.

As part of the merger with LA (see Note 19), the Foundation acquired assets including a perpetual trust with a fair value of \$1,799,433, which LA (subsequently the Foundation) is named as the sole beneficiary.

There were no transfers into or out of Level 3 financial assets during the years ended June 30, 2018 or 2017.

Non-recurring measurement

Fair value for contributions receivable is assessed on a non-recurring basis in the year multi-year commitments are received. During the years ended June 30, 2018 and 2017, the following fair values were assessed on a non-recurring basis for contributions receivable:

	2018	2017	Level
Contributions receivable	\$ 940,592	\$ 200,000	3

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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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Notes to Consolidated Financial Statements (Continued)

17. Endowment (Continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

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, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,196,566	\$ 1,196,566
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>5,152,979</u>	<u>5,152,979</u>
Total funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,349,545</u>	<u>\$ 6,349,545</u>

Epilepsy Foundation of America
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Notes to Consolidated Financial Statements (Continued)

17. Endowment (Continued)

Changes in endowment net assets for the year ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 4,472,825	\$ 4,472,825
Investment return:				
Investment income	-	2,910	-	2,910
Net appreciation (realized and unrealized)	-	11,828	36,287	48,115
Total investment return	-	14,738	36,287	51,025
Inherent contributor from acquisition	-	-	1,840,433	1,840,433
Appropriation of endowment assets for expenditure	-	(14,738)	-	(14,738)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,349,545</u>	<u>\$ 6,349,545</u>

Endowment net asset composition by type of fund as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,154,921	\$ 1,154,921
Beneficial interest in perpetual trusts	-	-	3,317,904	3,317,904
Total funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,472,825</u>	<u>\$ 4,472,825</u>

Epilepsy Foundation of America
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Notes to Consolidated Financial Statements (Continued)

17. Endowment (Continued)

Changes in endowment net assets for the year ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 4,290,756	\$ 4,290,756
Investment return:				
Investment income	-	24,599	-	24,599
Net depreciation (realized and unrealized)	-	73,793	182,069	255,862
Total investment return	-	98,392	182,069	280,461
Appropriation of endowment assets for expenditure	-	(98,392)	-	(98,392)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,472,825</u>	<u>\$ 4,472,825</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 unrestricted net assets. As of June 30, 2018 and 2017, there were no deficiencies. Deficiencies of this type can be the result of unfavorable market fluctuations occurring after the investment of permanently restricted contributions and continued appropriations for certain programs that was deemed prudent by the Board of Directors.

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
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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, 30% 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. Contributed Services

During the years ended June 30, 2018 and 2017, the Foundation received \$359,316 and \$91,533 in donated services primarily consisting of legal and advertising services for which the Foundation would have incurred if not donated to the Foundation.

19. Acquisitions

Listed below are the organizations acquired by the Foundation during the year ended June 30, 2018, along with the effective date of the acquisition. All of the acquisitions were approved by Board of Directors of each organization.

- Chesapeake - Effective September 30, 2017
- Western Ohio - Effective October 31, 2017
- Alabama - Effective December 31, 2017
- Mississippi - Effective December 31, 2017
- Iowa and Nebraska - Effective December 31, 2017
- LA - Effective June 30, 2018

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Notes to Consolidated Financial Statements (Continued)

19. Acquisitions (Continued)

In accordance with GAAP, the Foundation recorded the excess of assets over liabilities as inherent contribution revenue for all acquisitions occurring during the year ended June 30, 2018. The assets and liabilities of the acquired organizations at the acquisition date, along with the inherent contribution recognized by the Foundation as a result of the acquisition, are listed below:

	<u>Chesapeake</u>	<u>Western Ohio</u>	<u>Mississippi</u>	<u>Alabama</u>	<u>LA</u>	<u>Iowa/ Nebraska</u>	
Assets:							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 8,991	\$ 1,826,964	\$ 107,213	
Cash and cash equivalents - restricted	-	-	-	-	1,683,979	-	
Investments	145,270	-	-	-	-	-	
Contributions receivable	-	-	-	-	116,543	-	
Other assets	-	-	-	-	55,029	-	
Beneficial Interest in Charitable Perpetual Trust	-	-	-	-	1,799,433	-	
Total assets	<u>145,270</u>	<u>-</u>	<u>-</u>	<u>8,991</u>	<u>5,481,948</u>	<u>107,213</u>	
Liabilities:							
Accounts payable	-	8,359	54,047	-	33,285	-	
Grants payable	-	-	-	-	36,875	-	Total
Other liabilities	-	-	-	-	114,053	-	Inherent
Total liabilities	<u>-</u>	<u>8,359</u>	<u>54,047</u>	<u>-</u>	<u>184,213</u>	<u>-</u>	Contribution
Inherent Contribution	<u>\$ 145,270</u>	<u>\$ (8,359)</u>	<u>\$ (54,047)</u>	<u>\$ 8,991</u>	<u>\$ 5,297,735</u>	<u>\$ 107,213</u>	<u>\$ 5,496,803</u>

20. Fixed Assets

The Foundation's fixed assets as of June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 737,381	\$ 682,641
Computer software	4,522,521	4,331,840
Leasehold improvements	<u>174,726</u>	<u>174,726</u>
	5,434,628	5,189,207
Less: accumulated depreciation and amortization	<u>(4,752,083)</u>	<u>(4,496,065)</u>
Fixed assets, net	<u>\$ 682,545</u>	<u>\$ 693,142</u>

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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 November 11, 2018, the date the consolidated financial statements were issued.

The Epilepsy Foundation Northwest (Northwest) and the Epilepsy Foundation of Arizona (Arizona) were acquired by the Foundation effective September 30, 2018 and July 1, 2018, respectively. These acquisitions were approved by the Board of Directors of each organization. The Foundation recognized an inherent contribution from Northwest and Arizona related to these acquisitions of approximately \$7,000 and \$305,000, respectively, during the year ended June 30, 2019.

Additionally, the Foundation's lease for office space, as described in Note 9, was amended effective July 2018 to extend the expiration date of the lease to October 2029.

Epilepsy Foundation of America
(dba Epilepsy Foundation)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

<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	<u>206,150</u>	<u>3,265,740</u>
Total expenditures of federal awards			<u>\$ 206,150</u>	<u>\$ 3,265,740</u>

Epilepsy Foundation of America
(dba Epilepsy Foundation)

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Epilepsy Foundation under programs of the federal government for the year ended June 30, 2018. 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 OMB Circular A-122, Cost Principles for Non-Profit Organizations, or 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)
Landover, 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, 2018, and the related consolidated statement 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 November 11, 2018.

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) to determine the 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 determination of consolidated financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity'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 cursive script that reads "Johnson Lambert LLP".

Vienna, Virginia
November 11, 2018



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

Report of Independent Auditors

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

Report on Compliance for Each Major Federal Program

We have audited the Epilepsy Foundation of America's (dba Epilepsy Foundation) (the Foundation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Foundation's major federal programs for the year ended June 30, 2018. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Foundation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

Opinion on Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 cursive script that reads "Johnson Lambert LLP". The signature is written in black ink and is positioned to the right of the main text block.

Vienna, Virginia
November 11, 2018

Epilepsy Foundation of America
(dba Epilepsy Foundation)

Schedule of Findings and Questioned Costs

For the year ended June 30, 2018

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?	None reported
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?	No
Significant deficiency identified not considered to be a material weakness?	None reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR.200.516(a)?	No

Identification of major program:

<u>CFDA Number</u>	<u>Federal Granting Agency and Program Title</u>
93.850	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

No matters reported.

Section III - Federal Award Findings and Questioned Costs

No matters reported.