

EPILEPSY FOUNDATION OF MICHIGAN

Southfield, Michigan

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2018 and 2017

EPILEPSY FOUNDATION OF MICHIGAN

TABLE OF CONTENTS As of and for the Years Ended December 31, 2018 and 2017

| | |
|-------------------------------------|--------|
| Independent Auditors' Report | 1 - 2 |
| Financial Statements | |
| Statements of Financial Position | 3 |
| Statements of Activities | 4 |
| Statements of Cash Flows | 5 |
| Statements of Functional Expenses | 6 - 7 |
| Notes to Financial Statements | 8 - 17 |

INDEPENDENT AUDITORS' REPORT

Board of Directors
Epilepsy Foundation of Michigan
Southfield, Michigan

We have audited the accompanying financial statements of Epilepsy Foundation of Michigan (the "Foundation"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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. 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2018 and 2017, and the 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.

Baker Tilly Virchow Krause, LLP

Southfield, Michigan
May 6, 2019

EPILEPSY FOUNDATION OF MICHIGAN

STATEMENTS OF FINANCIAL POSITION As of December 31, 2018 and 2017

| ASSETS | | |
|---|-------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 194,029 | \$ 202,794 |
| Accounts receivable | 36,820 | 24,745 |
| Unconditional promises to give, current portion | 3,000 | 4,000 |
| Prepaid expenses | <u>22,367</u> | <u>20,784</u> |
| Total Current Assets | <u>256,216</u> | <u>252,323</u> |
| PROPERTY AND EQUIPMENT | | |
| Furniture and equipment | 124,670 | 122,839 |
| Less: Accumulated depreciation | <u>(120,407)</u> | <u>(119,088)</u> |
| Net Property and Equipment | <u>4,263</u> | <u>3,751</u> |
| OTHER ASSETS | | |
| Deposits | - | 278 |
| Long-term unconditional promises to give | 4,000 | 4,000 |
| Investments | <u>282,068</u> | <u>199,646</u> |
| Total Other Assets | <u>286,068</u> | <u>203,924</u> |
| | | |
| TOTAL ASSETS | <u>\$ 546,547</u> | <u>\$ 459,998</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 1,694 | \$ 8,940 |
| Accrued salaries and other benefits | 59,827 | 59,351 |
| Accrued expenses | 7,011 | 1,432 |
| Deferred revenues | 8,011 | 3,767 |
| Deferred rent | <u>12,276</u> | <u>18,267</u> |
| Total Current Liabilities | <u>88,819</u> | <u>91,757</u> |
| NET ASSETS | | |
| Net assets without donor restrictions | 439,731 | 357,204 |
| Net assets with donor restrictions | <u>17,997</u> | <u>11,037</u> |
| Total Net Assets | <u>457,728</u> | <u>368,241</u> |
| | | |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 546,547</u> | <u>\$ 459,998</u> |

See accompanying notes to financial statements.

EPILEPSY FOUNDATION OF MICHIGAN

STATEMENTS OF ACTIVITIES For the Years Ended December 31, 2018 and 2017

| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | 2018 Total | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | 2017 Total |
|--|---|--|-------------------|---|--|-------------------|
| PUBLIC SUPPORT | | | | | | |
| Foundation and corporate grants | \$ 166,900 | \$ 12,200 | \$ 179,100 | \$ 230,250 | \$ - | \$ 230,250 |
| Contributions | 186,982 | 7,277 | 194,259 | 182,137 | 9,407 | 191,544 |
| In-kind contributions | 100 | - | 100 | 2,973 | - | 2,973 |
| Bequests | 23,000 | - | 23,000 | 15,000 | - | 15,000 |
| United Way | 32,980 | - | 32,980 | 27,809 | - | 27,809 |
| Special events, net of direct expenses of \$172,087 and \$164,451 for 2018 and 2017, respectively | 407,072 | - | 407,072 | 385,044 | - | 385,044 |
| Net assets released from donor restrictions | <u>12,517</u> | <u>(12,517)</u> | <u>-</u> | <u>4,000</u> | <u>(4,000)</u> | <u>-</u> |
| Total Public Support | <u>829,551</u> | <u>6,960</u> | <u>836,511</u> | <u>847,213</u> | <u>5,407</u> | <u>852,620</u> |
| REVENUE | | | | | | |
| Revenues from governmental agencies | 40,933 | - | 40,933 | 58,048 | - | 58,048 |
| Program service fees | 12,741 | - | 12,741 | 43,080 | - | 43,080 |
| Investment income (loss) | <u>(12,748)</u> | <u>-</u> | <u>(12,748)</u> | <u>13,947</u> | <u>-</u> | <u>13,947</u> |
| Total Revenue | <u>40,926</u> | <u>-</u> | <u>40,926</u> | <u>115,075</u> | <u>-</u> | <u>115,075</u> |
| Total Public Support and Revenue | <u>870,477</u> | <u>6,960</u> | <u>877,437</u> | <u>962,288</u> | <u>5,407</u> | <u>967,695</u> |
| FUNCTIONAL EXPENSES | | | | | | |
| Program | 683,606 | - | 683,606 | 733,332 | - | 733,332 |
| Management and general | 95,842 | - | 95,842 | 94,322 | - | 94,322 |
| Fundraising | <u>8,502</u> | <u>-</u> | <u>8,502</u> | <u>9,132</u> | <u>-</u> | <u>9,132</u> |
| Total Functional Expenses | <u>787,950</u> | <u>-</u> | <u>787,950</u> | <u>836,786</u> | <u>-</u> | <u>836,786</u> |
| CHANGE IN NET ASSETS | 82,527 | 6,960 | 89,487 | 125,502 | 5,407 | 130,909 |
| NET ASSETS - Beginning of Year | <u>357,204</u> | <u>11,037</u> | <u>368,241</u> | <u>231,702</u> | <u>5,630</u> | <u>237,332</u> |
| NET ASSETS - END OF YEAR | <u>\$ 439,731</u> | <u>\$ 17,997</u> | <u>\$ 457,728</u> | <u>\$ 357,204</u> | <u>\$ 11,037</u> | <u>\$ 368,241</u> |

See accompanying notes to financial statements.

EPILEPSY FOUNDATION OF MICHIGAN

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 89,487 | \$ 130,909 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 1,319 | 1,083 |
| Change in allowance | - | (1,750) |
| Realized and unrealized loss (gains) on investments | 15,415 | (15,147) |
| Changes in assets and liabilities | | |
| Accounts receivable | (12,075) | 7,965 |
| Pledges receivable | 1,000 | (4,250) |
| Prepaid expenses | (1,583) | (6,339) |
| Deposits | 278 | - |
| Accounts payable | (7,246) | (1,674) |
| Accrued salaries and other benefits | 476 | 26,995 |
| Accrued expenses | 5,579 | (96) |
| Deferred revenues | 4,244 | (44,351) |
| Deferred rent | (5,991) | (4,127) |
| Net Cash Provided By Operating Activities | <u>90,903</u> | <u>89,218</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (1,831) | (4,256) |
| Proceeds from sales of investments, net | 126,557 | 21,251 |
| Purchases of investments | (136,062) | (20,986) |
| Net transfers into investment account | (88,332) | - |
| Net Cash Provided By Investing Activities | <u>(99,668)</u> | <u>(3,991)</u> |
| Net Change in Cash and Cash Equivalents | (8,765) | 85,227 |
| CASH AND CASH EQUIVALENTS - Beginning of Year | <u>202,794</u> | <u>117,567</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 194,029</u> | <u>\$ 202,794</u> |

See accompanying notes to financial statements.

EPILEPSY FOUNDATION OF MICHIGAN

STATEMENT OF FUNCTIONAL EXPENSES For the Year Ended December 31, 2018

| | Individual and Family Services | Community Services | Advocacy and Public Policy | Total Program | Management and General | Fundraising | Total |
|---|-----------------------------------|-----------------------|-------------------------------|-------------------|---------------------------|-----------------|-------------------|
| Salaries, wages, and employee benefits | \$ 203,363 | \$ 202,923 | \$ 22,497 | \$ 428,783 | \$ 54,698 | \$ 3,756 | \$ 487,237 |
| Occupancy | 22,652 | 26,093 | 2,513 | 51,258 | 7,270 | 753 | 59,281 |
| Printing and mailing - materials and solicitation | 1,947 | 8,246 | 221 | 10,414 | 632 | 2,013 | 13,059 |
| Professional fees and contract services | 1,975 | 1,883 | 36,797 | 40,655 | 15,727 | 40 | 56,422 |
| Organizational dues and licenses | 9,305 | 9,574 | 1,062 | 19,941 | 3,021 | 286 | 23,248 |
| Equipment rentals and maintenance | 5,587 | 5,593 | 636 | 11,816 | 1,788 | 147 | 13,751 |
| Computer/network support | 7,153 | 7,185 | 808 | 15,146 | 2,292 | 234 | 17,672 |
| Educational events and camps | 65,491 | 3,237 | 199 | 68,927 | - | - | 68,927 |
| Telephone and internet | 2,774 | 2,738 | 278 | 5,790 | 778 | 169 | 6,737 |
| Travel | 1,840 | 7,345 | 1,892 | 11,077 | 3 | 12 | 11,092 |
| Staff, board, and volunteer development | 563 | 4,139 | 795 | 5,497 | 141 | - | 5,638 |
| Insurance - general and liability | 2,707 | 2,588 | 254 | 5,549 | 3,576 | 48 | 9,173 |
| Office expenses | 2,488 | 4,775 | 227 | 7,490 | 1,747 | 339 | 9,576 |
| Third party fundraising expenses | - | 211 | - | 211 | - | 457 | 668 |
| Miscellaneous | - | 116 | - | 116 | 1,156 | - | 1,272 |
| Bank charges | - | - | - | - | 2,878 | - | 2,878 |
| Depreciation | <u>452</u> | <u>370</u> | <u>114</u> | <u>936</u> | <u>135</u> | <u>248</u> | <u>1,319</u> |
| Total Expenses | <u>\$ 328,297</u> | <u>\$ 287,016</u> | <u>\$ 68,293</u> | <u>\$ 683,606</u> | <u>\$ 95,842</u> | <u>\$ 8,502</u> | <u>\$ 787,950</u> |

See accompanying notes to financial statements.

EPILEPSY FOUNDATION OF MICHIGAN

STATEMENT OF FUNCTIONAL EXPENSES For the Year Ended December 31, 2017

| | Individual and Family Services | Community Services | Advocacy and Public Policy | Total Program | Management and General | Fundraising | Total |
|---|-----------------------------------|-----------------------|-------------------------------|-------------------|---------------------------|-----------------|-------------------|
| Salaries, wages, and employee benefits | \$ 222,993 | \$ 218,322 | \$ 21,388 | \$ 462,703 | \$ 54,795 | \$ 3,045 | \$ 520,543 |
| Occupancy | 23,076 | 29,314 | 3,451 | 55,841 | 7,911 | 1,347 | 65,099 |
| Printing and mailing - materials and solicitation | 2,407 | 8,704 | 287 | 11,398 | 668 | 1,996 | 14,062 |
| Professional fees and contract services | 1,762 | 1,769 | 48,240 | 51,771 | 15,332 | 62 | 67,165 |
| Organizational dues and licenses | 3,574 | 3,859 | 366 | 7,799 | 1,213 | 258 | 9,270 |
| Equipment rentals and maintenance | 5,892 | 6,239 | 1,006 | 13,137 | 2,022 | 371 | 15,530 |
| Computer/network support | 6,732 | 7,092 | 976 | 14,800 | 2,303 | 392 | 17,495 |
| Educational events and camps | 74,408 | 2,174 | 111 | 76,693 | - | - | 76,693 |
| Telephone and internet | 2,611 | 2,653 | 322 | 5,586 | 823 | 118 | 6,527 |
| Travel | 3,316 | 4,048 | 2,176 | 9,540 | 24 | 65 | 9,629 |
| Staff, board, and volunteer development | 784 | 2,171 | 3,126 | 6,081 | 539 | - | 6,620 |
| Insurance - general and liability | 2,665 | 2,649 | 344 | 5,658 | 3,623 | 120 | 9,401 |
| Office expenses | 3,141 | 4,481 | 619 | 8,241 | 1,729 | 378 | 10,348 |
| Third party fundraising expenses | - | - | - | - | - | 730 | 730 |
| Interest and bank charges | 3,003 | 288 | - | 3,291 | 3,238 | 62 | 6,591 |
| Depreciation | 386 | 318 | 89 | 793 | 102 | 188 | 1,083 |
| Total Expenses | <u>\$ 356,750</u> | <u>\$ 294,081</u> | <u>\$ 82,501</u> | <u>\$ 733,332</u> | <u>\$ 94,322</u> | <u>\$ 9,132</u> | <u>\$ 836,786</u> |

See accompanying notes to financial statements.

EPILEPSY FOUNDATION OF MICHIGAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

Epilepsy Foundation of Michigan (the "Foundation") is a not-for-profit corporation located in Southfield, Michigan. The Foundation provides personal consultations, camps and workshops for individuals with epilepsy, support for their families, and education for medical professionals and the Michigan community.

Cash and Cash Equivalents

The Foundation considers all highly liquid, short-term investments with a maturity at the date of acquisition of three months or less to be cash equivalents. The Foundation maintains its cash in bank deposit accounts, which at times throughout the year, may exceed federally insured limits; the Foundation has not experienced any losses on such accounts.

Accounts Receivable

Accounts receivable consist primarily of donations and grants that are expected to be collected subsequent to year-end. An allowance for the receivables is the Foundation's best estimate of the amount of probable credit losses in the Foundation's existing receivables. No allowance was considered necessary as of December 31, 2018 or 2017.

Unconditional Promises to Give

Unconditional promises to give made to the Foundation are recorded in the year the pledge is made. Current contributions receivable are expected to be collected during the next year and are recorded at net realizable value. An allowance for uncollectible promises to give is determined based on the Foundation's collection experience with its donor base. No allowance was considered necessary as of December 31, 2018 or 2017.

Investments

Equity securities with readily determinable fair values and debt securities are measured at their acquisition cost (including brokerage and other transaction fees) if purchased, or at fair value if contributed. Subsequently, investments with readily determinable fair values are recorded at fair value based upon quoted market prices for identical instruments traded in active markets. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered to approximate fair value at the date of donation). Those investments for which fair value is not readily determinable are carried at cost or, if donated, at fair value at the date of donation, or if no value can be estimated, at a nominal value. The Foundation records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss and unrealized gains or losses are included in the statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by the donor or by law.

EPILEPSY FOUNDATION OF MICHIGAN

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Fair Value Measurement

The Foundation follows generally accepted accounting principles for fair value measurements, which define fair value, establish a framework for measuring fair value under accounting principles generally accepted in the United States, and enhance disclosures about fair value measurement. The Foundation also follows the provisions of generally accepted accounting principles for fair value measurement that apply to nonfinancial assets and nonfinancial liabilities that are not measured at fair value on a recurring basis.

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction (i.e., not a forced transaction, such as a liquidation or distressed sale) between market participants at the measurement date. The guidance clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The levels within this hierarchy are described as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates and assumptions that market participants would use in pricing the asset or liability.

For assets and liabilities recorded at fair value, it is the Foundation's policy to maximize the use of observable inputs and minimize the use of unobservable inputs for those financial instruments for which there is not an active market.

Following is a description of the valuation methodologies used to measure fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

Common stocks: Valued at the closing price reported on the active market in which the individual stocks are traded.

Mutual funds: Open-ended funds are valued at the net asset value of shares held by the Foundation at year end. Closed-ended funds are valued at the closing price reported on the active market in which the individual mutual funds are traded. The Foundation's mutual funds are closed ended funds as of December 31, 2018 and 2017.

Government bonds and Treasury notes: Valued using a pricing service that uses market-based yield curves and sales of similar assets.

Corporate bonds: Valued at the closing price reported on the active market in which the individual bonds are traded.

EPILEPSY FOUNDATION OF MICHIGAN

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Fair Value Measurement (cont.)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. See Note 2 for additional disclosures related to fair value measurement.

Property and Equipment

Property and equipment are stated at cost if purchased or fair value at date of the gift if donated. All acquisitions of property and equipment in excess of \$1,000 and all expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income. Management reviews these assets for impairment whenever events or circumstances indicate the carrying value may not be recoverable.

Donated property and equipment are recorded as increases in net assets without donor restrictions, unless restricted by a donor, at their estimated fair value as of the date received. Contributions of cash that must be used to acquire property and equipment are reported as donor restricted contributions. The Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service or as instructed by the donor. The Foundation reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Property and equipment are depreciated using straight-line and accelerated depreciation methods that approximate the estimated life of the assets.

Net Assets

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

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations, or are required to be maintained permanently by the Foundation.

Tax-Exempt Status

The Foundation has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes.

EPILEPSY FOUNDATION OF MICHIGAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Tax-Exempt Status (cont.)

The Foundation follows guidance included in an accounting standard related to the accounting for uncertainty in income taxes. The tax effects from an uncertain tax position can be recognized in the financial statements, only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. The Foundation recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized, upon ultimate settlement with the relevant tax authority.

Based on its evaluation, the Foundation has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements.

Revenue Recognition

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

The Foundation also earns revenue under certain fee-for-service type agreements. Such revenue is recognized in the period the services are performed. Amounts received in advance of the services being performed are recorded as deferred revenues in the statements of financial position.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restriction. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Foundation does not quantify the portion of special event revenue that represents an exchange transaction versus a contribution, because, in the opinion of management, the costs of doing so outweigh the benefits, and due to the fact that planned special events may not take place if sufficient support is not received. Accordingly, the Foundation recognizes revenue from special events in the period in which the event takes place and records any amounts received in advance as deferred revenues.

In-Kind Revenue

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In-kind services relate to services provided to support the special events held by the Organization. In-kind revenue for the years ended December 31, 2018 and 2017 was \$100 and \$2,973, respectively.

Leases

When operating leases include free rent periods and or escalating annual rents over the lease term, rent expense is recognized on a straight-line basis over the term of the lease, including expected renewal periods, based on the total rents called for under the base lease, combined with rents for expected renewal periods.

EPILEPSY FOUNDATION OF MICHIGAN

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated between programs, management and general and fundraising on various bases and estimates. All employee costs including salaries and wages, payroll taxes, and benefits are allocated based on each employee's time spent performing program, management and fundraising activities. Other expenses are classified based on the nature and purpose of the transaction.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of Financial Accounting Standard Board's Accounting Standards Update

In 2018, the Foundation adopted the Financial Accounting Standard Board's Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented.

The new standard changes the following aspects of the financial statements:

- > The unrestricted net assets class has been renamed Net Assets Without Donor Restrictions;
- > The temporarily restricted net asset class has been renamed Net Assets With Donor Restrictions;
- > The financial statements include a disclosure about liquidity and availability of resources (Note 8);
- > The financial statements include a statement of functional expenses.

Subsequent Events

The Foundation has evaluated subsequent events occurring through May 6, 2019, the date that the financial statements were available to be issued for events requiring recording or disclosure in the Foundation's financial statements.

EPILEPSY FOUNDATION OF MICHIGAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 2 - Investments and Fair Value Measurement

Investments in securities carried at fair value as of December 31 consist of the following:

| | 2018 | 2017 |
|-------------------------------------|----------------|----------------|
| Common stocks | \$ 39,734 | \$ 35,520 |
| Mutual funds | 85,126 | 66,314 |
| Government bonds and Treasury notes | 86,185 | 52,282 |
| Corporate bonds | 71,023 | 45,530 |
| Total Investments | \$ 282,068 | \$ 199,646 |

Investment return (loss) for the years ended December 31 is summarized as follows:

| | 2018 | 2017 |
|--|-----------------|---------------|
| Interest and dividend income | \$ 6,640 | \$ 4,018 |
| Net realized and unrealized gains (loss) | (15,415) | 15,147 |
| Investment expenses | (3,973) | (5,218) |
| Total Net Investment Income (loss) | \$ (12,748) | \$ 13,947 |

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy discussed in Note 1:

| | December 31, 2018 | | | |
|-------------------------------------|-------------------|----------------|---------------|----------|
| | Total | Level 1 | Level 2 | Level 3 |
| Common Stocks | | | | |
| Communication services | \$ 3,060 | \$ 3,060 | \$ - | \$ - |
| Consumer discretionary | 317 | 317 | - | - |
| Energy | 1,192 | 1,192 | - | - |
| Health care | 4,927 | 4,927 | - | - |
| Industrials | 2,106 | 2,106 | - | - |
| Information technology | 4,530 | 4,530 | - | - |
| Materials | 914 | 914 | - | - |
| Other | 22,688 | 22,688 | - | - |
| Total Common Stocks | 39,734 | 39,734 | - | - |
| Fixed Income Investments | | | | |
| Corporate bonds | 71,023 | 71,023 | - | - |
| Government bonds | 35,650 | - | 35,650 | - |
| Treasury notes | 50,535 | - | 50,535 | - |
| Mutual funds | 85,126 | 85,126 | - | - |
| Total Fixed Income Investments | 242,334 | 156,149 | 86,185 | - |
| Total Investments | \$ 282,068 | \$ 195,883 | \$ 86,185 | \$ - |

EPILEPSY FOUNDATION OF MICHIGAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 2 - Investments and Fair Value Measurement (cont.)

| | December 31, 2017 | | | |
|--------------------------------|-------------------|-------------------|------------------|-------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Common Stocks | | | | |
| Consumer discretionary | \$ 2,096 | \$ 2,096 | \$ - | \$ - |
| Energy | 1,421 | 1,421 | - | - |
| Health care | 3,659 | 3,659 | - | - |
| Industrials | 1,954 | 1,954 | - | - |
| Information technology | 4,937 | 4,937 | - | - |
| Materials | 1,421 | 1,421 | - | - |
| Other | <u>20,032</u> | <u>20,032</u> | - | - |
| Total Common Stocks | <u>35,520</u> | <u>35,520</u> | - | - |
| Fixed Income Investments | | | | |
| Corporate bonds | 45,530 | 45,530 | - | - |
| Government bonds | 25,225 | - | 25,225 | - |
| Treasury notes | 27,057 | - | 27,057 | - |
| Mutual funds | <u>66,314</u> | <u>66,314</u> | - | - |
| Total Fixed Income Investments | <u>164,126</u> | <u>111,844</u> | <u>52,282</u> | - |
| Total Investments | <u>\$ 199,646</u> | <u>\$ 147,364</u> | <u>\$ 52,282</u> | <u>\$ -</u> |

NOTE 3 - Unconditional Promises to Give

Unconditional promises to give are recognized as contribution revenue in the period received and recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows, which approximates fair value. Unconditional promises to give at December 31 are summarized as follows:

| | 2018 | 2017 |
|-------------------------------------|-----------------|-----------------|
| Receivable in less than one year | \$ 3,000 | \$ 4,000 |
| Receivable in one to five years | <u>4,000</u> | <u>4,000</u> |
| Unconditional Promises to Give, Net | <u>\$ 7,000</u> | <u>\$ 8,000</u> |

The long-term promises to give were not discounted to present value for the years ended December 31, 2018 and 2017 as management considers a discounted computation to be immaterial to the financial statements.

NOTE 4 - Line of Credit

The Foundation has a line of credit financing agreement with a financial institution that provides for maximum borrowings of \$30,000 that is secured by all assets of the Foundation. The line of credit has no maturity date. The Foundation did not have any outstanding borrowings on the line of credit at December 31, 2018 or 2017.

EPILEPSY FOUNDATION OF MICHIGAN

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017

NOTE 5 - Classification of Net Assets

The net assets without donor restrictions totaling \$439,731 and \$357,204 at December 31, 2018 and 2017, respectively, consists of funds used for general purposes and are without donor restrictions. The Foundation, from time-to-time, holds board designated funds that are not available for general use without prior Board approval. When applicable, the Board, however, does not consider these amounts to be Board designated endowments, as defined in the Financial Accounting Standards Board's ("FASB") ASC Topic No. 958. These amounts are determined at the board's discretion annually; no amounts are board designated for the years ended December 31, 2018 and 2017.

Net assets with donor restrictions at December 31, 2018 and 2017 bear the following time or purpose restrictions:

| | <u>2018</u> | <u>2017</u> |
|--|------------------|------------------|
| Scholarships | \$ 4,314 | \$ 3,037 |
| Pledge receivable | 7,000 | 8,000 |
| Grant | <u>6,683</u> | <u>-</u> |
| Total Net Assets with Donor Restrictions | <u>\$ 17,997</u> | <u>\$ 11,037</u> |

NOTE 6 - Retirement Plan

The Foundation maintains a defined contribution retirement plan covering substantially all employees. Contributions to the retirement plan are made at the discretion of the Board of Directors. The contributions to the retirement plan in 2018 and 2017 were \$16,670 and \$17,170, respectively.

NOTE 7 - Operating Leases

The Foundation has lease agreements for the use of office space and equipment. The lease agreements expire on various dates through 2023. Lease expense related to office space for the years ended December 31, 2018 and 2017 was \$59,281 and \$65,099, respectively. Lease expense related to equipment for the years ended December 31, 2018 and 2017 was \$7,141 and \$7,165, respectively, which is included in equipment rental and maintenance on the accompanying statement of functional expenses.

The following is a schedule of future minimum lease payments for leases with initial or remaining lease terms of twelve months or more as of December 31, 2018:

| | |
|--------------------------------------|------------------|
| Future minimum lease payments due in | |
| 2019 | \$ 58,337 |
| 2020 | 33,651 |
| 2021 | 1,572 |
| 2022 | 1,572 |
| 2023 | <u>1,572</u> |
| Total Future Minimum Lease Payments | <u>\$ 96,704</u> |

EPILEPSY FOUNDATION OF MICHIGAN

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017

NOTE 8 - Liquidity and Funds Available

The Foundation's financial assets available within one year of the statement of financial position date for general expenditures such as operating expenses and fixed asset additions not financed with debt are as follows:

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| Financial Assets: | | |
| Cash and cash equivalents | \$ 194,029 | \$ 202,794 |
| Accounts receivable | 36,820 | 24,745 |
| Unconditional promises to give, current portion | <u>7,000</u> | <u>8,000</u> |
| Financial assets, at year-end | 237,849 | 235,539 |
| Less those unavailable for general expenditures within one year, due to: | | |
| Unconditional promises to give collectible beyond one year | (4,000) | (4,000) |
| Restricted for purpose by donor and time restrictions | <u>(13,997)</u> | <u>(7,037)</u> |
| Financial assets available for meet cash needs for general expenditures within one year | <u>\$ 219,852</u> | <u>\$ 224,502</u> |

The Foundation has a line of credit of \$30,000, all of which is available as of December 31, 2018, which it could draw upon in the event of an unanticipated liquidity need.

NOTE 9 - Related Party Transactions

Beginning July 1, 2017, the Foundation started paying monthly dues to the national Epilepsy Foundation based on a five year agreement that was executed on June 1, 2018. The agreement specifies that the dues to be paid each year will not exceed \$25,000; expenses pertaining to this agreement were \$22,535 and \$8,601 for the years ended December 31, 2018 and 2017, respectively. In exchange for paying monthly dues, the Foundation has access to the use of the brand, grants and programs and other. The total received from the national Epilepsy Foundation was \$35,977 and \$28,646 for the years ended December 31, 2018 and 2017, respectively.

Additionally, in 2018, a board member pledged \$5,000 to the Foundation, of which, \$2,000 was paid in 2018 and \$3,000 is included within unconditional promises to give on the statement of financial position as of December 31, 2018.

EPILEPSY FOUNDATION OF MICHIGAN

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2018 and 2017

NOTE 10 - New Accounting Pronouncements

During May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) issued ASU No. 2014-09, "Revenue from Contracts with Customers". ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU 2014-09. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2018. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Foundation is currently assessing the effect that ASU No. 2014-09 will have on its results of operations, financial position and cash flows.

During February 2016, the FASB issued ASU No. 2016-02, "Leases". ASU 2016-02 establishes principles that require a lessee to recognize a lease asset and a lease liability for those leases classified as operating leases under previous accounting principles generally accepted in the United States of America. ASU No. 2016-02 is effective for annual periods beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The Foundation is currently assessing the effect that ASU No. 2016-02 will have on its results of operations, financial position and cash flows.

During June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958): “Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made”. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. For not-for-profit entities that have conduit debt, ASU No. 2018-08 is effective for fiscal years beginning after June 15, 2018. All other entities should apply the amendments for fiscal years beginning after December 15, 2018. The Foundation is currently assessing the impact that ASU No. 2018-08 will have on its results of operations, financial position and cash flows.