

Epilepsy Foundation of Michigan

Financial Statements

December 31, 2021

Epilepsy Foundation of Michigan

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Independent Auditors' Report

To the Board of Directors of
Epilepsy Foundation of Michigan

Opinion

We have audited the financial statements of Epilepsy Foundation of Michigan (the Foundation), which comprise the statements of financial position as of December 31, 2021, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

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

Emphasis of Matter - Restatement

As discussed in Note 2 of the financial statements, the beginning of year net assets have been restated to correct for unrecorded Employee Retention Credit income and an unconditional and restricted grant. Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Baker Tilly US, LLP

Southfield, Michigan
July 5, 2022

Epilepsy Foundation of Michigan

Statement of Financial Position

December 31, 2021

Assets

Current Assets

Cash and cash equivalents	\$ 716,549
Accounts receivable	199,507
Unconditional promises to give, current portion	575
Prepaid expenses	<u>31,093</u>
Total current assets	<u>947,724</u>

Property and Equipment

Furniture and equipment	134,355
Less accumulated depreciation	<u>(124,886)</u>
Net property and equipment	<u>9,469</u>

Other Assets

Investments	<u>757,502</u>
Total assets	<u>\$ 1,714,695</u>

Liabilities and Net Assets

Current Liabilities

Paycheck Protection Program loan	\$ 101,815
Accounts payable	7,696
Accrued salaries and other benefits	60,939
Accrued expenses	743
Deferred revenues	12,014
Deferred rent	<u>10,303</u>
Total current liabilities	<u>193,510</u>

Net Assets

Net assets without donor restrictions	1,383,759
Net assets with donor restrictions	<u>137,426</u>
Total net assets	<u>1,521,185</u>
Total liabilities and net assets	<u>\$ 1,714,695</u>

See notes to financial statements

Epilepsy Foundation of Michigan

Statement of Activities

Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>
Public Support			
Foundation and corporate grants	\$ 88,725	\$ 21,000	\$ 109,725
Contributions	519,733	-	519,733
Bequests	83,493	-	83,493
United Way	21,007	-	21,007
Special events, net of direct expenses of \$86,679	290,620	-	290,620
Net assets released from donor restrictions	<u>46,888</u>	<u>(46,888)</u>	<u>-</u>
Total public support	<u>1,050,466</u>	<u>(25,888)</u>	<u>1,024,578</u>
Revenue			
Revenues from governmental agencies	96,346	-	96,346
Program service fees	750	-	750
Net investment income	28,981	-	28,981
Paycheck Protection Program loan forgiveness income	<u>101,812</u>	<u>-</u>	<u>101,812</u>
Total revenue	<u>227,889</u>	<u>-</u>	<u>227,889</u>
Total public support and revenue	<u>1,278,355</u>	<u>(25,888)</u>	<u>1,252,467</u>
Functional Expenses			
Program	705,422	-	705,422
Management and general	104,500	-	104,500
Fundraising	<u>11,577</u>	<u>-</u>	<u>11,577</u>
Total functional expenses	<u>821,499</u>	<u>-</u>	<u>821,499</u>
Change in net assets	456,856	(25,888)	430,968
Net Assets, Beginning, as Restated	<u>926,903</u>	<u>163,314</u>	<u>1,090,217</u>
Net Assets, Ending	<u>\$ 1,383,759</u>	<u>\$ 137,426</u>	<u>\$ 1,521,185</u>

See notes to financial statements

Epilepsy Foundation of Michigan

Statement of Cash Flows

Year Ended December 31, 2021

Cash Flows From (Used in) Operating Activities

Change in net assets	\$ 430,968
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	1,519
Forgiveness of Paycheck Protection Program loan	(101,812)
Employee Retention Credit income	(54,556)
Realized and unrealized gain on investments	(26,166)
Changes in assets and liabilities:	
Accounts receivable	81,582
Pledges receivable	(2,743)
Prepaid expenses	(6,306)
Accounts payable	4,730
Accrued salaries and other benefits	(16,179)
Accrued expenses	(123)
Deferred revenues	11,827
Deferred rent	649
	<u>323,390</u>
Net cash flows from operating activities	<u>323,390</u>

Cash Flows From (Used in) Investing Activities

Purchases of property and equipment	(5,516)
Proceeds from sales of investments	36,092
Purchases of investments	(341,390)
Transfers from investment account	150,000
	<u>(160,814)</u>
Net cash flows used in investing activities	<u>(160,814)</u>

Cash Flows From Financing Activities

Proceeds from Paycheck Protection Program loan	<u>101,815</u>
Net change in cash and cash equivalents	264,391

Cash and Cash Equivalents, Beginning 452,158

Cash and Cash Equivalents, Ending \$ 716,549

Epilepsy Foundation of Michigan

Statement of Functional Expenses

Year Ended December 31, 2021

	Individual and Family Services	Community Services	Advocacy and Public Policy	Total Program	Management and General	Fundraising	Total
Salaries, wages, and employee benefits	\$ 156,296	\$ 316,698	\$ 16,626	\$ 489,620	\$ 60,766	\$ 4,280	\$ 554,666
Occupancy	18,582	35,550	1,074	55,206	7,307	618	63,131
Printing and mailing, materials and solicitation	971	7,090	91	8,152	428	1,478	10,058
Professional fees and contract services	28,415	3,008	10,065	41,488	20,275	24	61,787
Organizational dues and licenses	7,606	15,054	456	23,116	3,071	504	26,691
Equipment rentals and maintenance	1,832	3,964	110	5,906	801	68	6,775
Computer and network support	5,978	10,467	325	16,770	2,108	177	19,055
Educational events and camps	39,923	2,000	-	41,923	-	-	41,923
Telephone and internet	1,691	3,449	106	5,246	695	59	6,000
Travel	-	-	79	79	-	-	79
Staff and board development	-	1,488	-	1,488	696	3	2,187
Insurance, general and liability	1,560	3,367	92	5,019	3,542	31	8,592
Office	1,585	9,674	110	11,369	1,658	141	13,168
Third party fundraising	-	-	-	-	-	832	832
Bank charges	40	-	-	40	1,634	3,362	5,036
Depreciation	-	-	-	-	1,519	-	1,519
Subtotal expenses	264,479	411,809	29,134	705,422	104,500	11,577	821,499
Special events	-	-	-	-	-	86,679	86,679
Total expenses	<u>\$ 264,479</u>	<u>\$ 411,809</u>	<u>\$ 29,134</u>	<u>\$ 705,422</u>	<u>\$ 104,500</u>	<u>\$ 98,256</u>	<u>\$ 908,178</u>

See notes to financial statements

Epilepsy Foundation of Michigan

Notes to Financial Statements
December 31, 2021

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, 2021.

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, 2021.

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.

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.

Epilepsy Foundation of Michigan

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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, 2021.

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, 2021.

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.

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 3 for additional disclosures related to fair value measurement.

Epilepsy Foundation of Michigan

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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.

Paycheck Protection Program Loan

The Foundation has accounted for their Paycheck Protection Program loans using Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 470, Debt (debt model). Refer to Note 6 for additional detail.

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.

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% 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.

Epilepsy Foundation of Michigan

Notes to Financial Statements
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Revenue Recognition

Revenue is recognized when the Foundation satisfies its performance obligation(s) under the agreement by transferring the promised service to its customers. A performance obligation is a promise in an agreement to transfer a distinct product or service to its customers and is identified at the inception of an agreement. An agreement's transaction price is allocated to each distinct performance obligation, however, substantially all of the Foundation's agreements have only a single performance obligation. The Foundation's revenues are substantially comprised of the following:

Contributions, including unconditional promises to give, are recognized at a point in time, which is in the period received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until they become unconditional, that is when the conditions on which they depend are met.

Certain fee-for-service type agreements. Such revenue is recognized at a point in time, which is 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.

Gifts and donations from special events are also recognized at a point in time, which is when the event takes place. Any amounts received in advance of the events are deferred revenues. 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.

Gifts of cash and other assets are 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.

Neither the type of service or the location of the service significantly impacts the nature, amount, timing or uncertainty of revenue and cash flows. In addition, the agreements typically do not include a significant financing component.

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 Foundation. In-kind revenue for the year ended December 31, 2021 was \$0.

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
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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.

Subsequent Events

The Foundation has evaluated subsequent events occurring through July 5, 2022, the date that the financial statements were available to be issued for events requiring recording or disclosure in the Foundation's financial statements.

2. Restatement of Net Assets

Subsequent to the issuance of the 2020 financial statements, it was determined that a \$160,000 grant that was awarded in November 2020 had been improperly accounted for as conditional. To correct this accounting, the Foundation restated their net assets with donor restrictions at the beginning of the year in the accompanying statement of activities.

Additionally, as disclosed in Note 7, subsequent to issuing the Foundation's 2020 financial statements, the Foundation determined that it was eligible to benefit from the Employee Retention Credit. Accordingly, the Foundation amended its 2020 941s and applied for 2020-related Employee Retention Credit in 2021 in the amount of \$47,234. The correction was applied by restating net assets without donor restrictions at the beginning of the year in the accompanying statement of activities.

The following line items in the statement of activities were affected by the restatements:

	<u>As Previously Stated</u>	<u>As Restated</u>	<u>Effect of Corrections</u>
Net assets without donor restrictions	\$ 879,669	\$ 926,903	\$ (47,234)
Net assets with donor restrictions	<u>3,314</u>	<u>163,314</u>	<u>(160,000)</u>
Total net assets	<u>\$ 882,983</u>	<u>\$ 1,090,217</u>	<u>\$ (207,234)</u>

Epilepsy Foundation of Michigan

Notes to Financial Statements
December 31, 2021

3. Investments and Fair Value Measurement

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

	<u>2021</u>
Common stocks	\$ 120,524
Mutual funds	238,020
Government bonds and treasury notes	232,950
Corporate bonds	<u>166,008</u>
Total investments	<u>\$ 757,502</u>

Net investment income for the year ended December 31 is summarized as follows:

	<u>2021</u>
Interest and dividend income	\$ 11,836
Net realized and unrealized gains	26,166
Investment expenses	<u>(9,021)</u>
Total net investment income	<u>\$ 28,981</u>

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.

	<u>December 31, 2021</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common stocks	\$ 120,524	\$ 120,524	\$ -	\$ -
Corporate bonds	166,008	166,008	-	-
Government bonds and treasury notes	232,950	-	232,950	-
Mutual funds	<u>238,020</u>	<u>238,020</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 757,502</u>	<u>\$ 524,552</u>	<u>\$ 232,950</u>	<u>\$ -</u>

There have been no transfers between Level 1 and Level 2 investments for the year ended December 31, 2021.

4. 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. All unconditional promises as of December 31, 2021 are current, as they are expected to be collected within one year.

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5. 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, 2021.

6. Paycheck Protection Program Loan

In May 2020, the Foundation received loan proceeds in the amount of \$101,812 under the Paycheck Protection Program (PPP) which was established as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act (as amended by the Economic Aid Act (EAA) on December 27, 2020 and is administered through the Small Business Administration (SBA). In March 2021, The Foundation also received a second draw PPP loan in the amount of \$101,815. The PPP provides loans to qualifying businesses in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying businesses to keep their workforce employed during the Coronavirus crisis. PPP loans are uncollateralized and guaranteed by the SBA and are forgivable after a "covered period" (of eight to twenty-four weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25% during the covered period. Any unforgiven portion is payable over 2 years if issued before, or 5 years if issued after, June 5, 2020 at an interest rate of 1% with payments deferred until the SBA remits the borrower's loan forgiveness amount to the lender, or, if the borrower does not apply for forgiveness, ten months after the end of the covered period. The Foundation may request to repay the loan over five years and the request is subject to the approval of the lender. PPP loan terms provide for customary events of default, including payment defaults, breaches of representations and warranties, and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, PPP loan terms do not include prepayment penalties.

The Foundation met the PPP's loan forgiveness requirements, and therefore, applied for forgiveness during February 2021 for the first PPP draw. Legal release was received in the same month for the full amount and therefore, the Foundation recorded \$101,812 as forgiveness income within other income of its statement of activities for the year ended December 31, 2021. The Foundation also met the PPP's loan forgiveness requirements for the second draw and, therefore, applied for forgiveness, which was received in February 2022. Accordingly, the Foundation will record forgiveness income on its 2022 statement of activities.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act (as amended by the EAA), all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

Epilepsy Foundation of Michigan

Notes to Financial Statements

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7. Employee Retention Credit and Related Restatement of Prior Period

The Employee Retention Credit (ERC), which was included as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and amended by the Consolidated Appropriations Act (CAA), the American Rescue Plan Act (ARPA), and the Infrastructure Investment and Jobs Act (IIJA), incentivizes employers severely impacted by the COVID-19 pandemic to retain their employees when they might otherwise find it difficult to do so. The fully refundable tax credit is allowed against the employer's share of employment taxes for qualified wages paid after March 12, 2020 and before October 1, 2021. Credits in excess of the tax amounts paid by an employer are treated as overpayments and are also refunded to the employer. The ERC is calculated as a percentage of qualified wages (as defined in the CARES Act, as amended) paid by an eligible employer. The Foundation qualified for the ERC as it experienced a significant decline in gross receipts (for 2020, defined as a 50% decline in gross receipts when compared to the same calendar quarter in 2019, and for 2021, defined as a 20% decline in gross receipts when compared to the same quarter in 2019). The Foundation averaged less than 100 full-time employees (FTEs) during 2019, therefore, it was considered a small employer during 2020 and 2021. As a small employer, all of the Company's otherwise qualified wages were eligible for the ERC.

For 2020, the ERC equaled 50% of an employee's qualified wages up to \$10,000 per employee per calendar quarter with a maximum annual credit for each employee of \$5,000. For 2021, the ERC equaled 70% of an employee's qualified wages up to \$10,000 per employee per calendar quarter with a maximum annual credit of \$21,000 for each employee.

In 2021, the Foundation applied for the ERC by amending its previously filed forms 941, and as a result, the Foundation has accounted for this federal funding by way of analogy to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 410, *Asset Retirement and Environmental Obligations*. ASC 410-30-35-8 indicates that a claim for recovery should be recognized only when the claim is probable of recovery as defined in ASC 450-20-25-1 (i.e. *Contingencies*). Accordingly, the Foundation believes that the recovery of employment tax amounts previously paid is probable, and therefore, has recorded an ERC receivable and related government grant of \$54,556 as of and for the year ended December 31, 2021. Additionally, the Foundation amended its 2020 941s and applied for 2020-related ERC in 2021 in the amount of \$47,234, of which all was still outstanding as of December 31, 2021. Accordingly, the 2020 accompanying statements of financial position, activities and cash flows have all been restated to reflect the increase in revenue and related receivable, as disclosed in Note 2.

8. Classification of Net Assets

The net assets without donor restrictions totaling \$1,383,759 at December 31, 2021 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 FASB ASC Topic No. 958. These amounts are determined at the board's discretion annually; no amounts are board designated for the year ended December 31, 2021 .

Net assets with donor restrictions at December 31 bear the following time or purpose restrictions:

	<u>2021</u>
Scholarships	\$ 1,314
Grant	<u>136,112</u>
Total net assets with donor restrictions	<u>\$ 137,426</u>

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Net assets were released from restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors during December 31:

	<u>2021</u>
Scholarships	\$ 2,000
Pledges receivable	1,000
Grant	<u>43,888</u>
Total net assets released from donor restrictions	<u>\$ 46,888</u>

9. 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 2021 was \$11,490.

10. Operating Leases

The Foundation has lease agreements for the use of office space and equipment. The lease agreements expire on various dates through 2025. Lease expense related to office space and storage for the year ended December 31, 2021 was \$63,131. Lease expense related to equipment for the year ended December 31, 2021 was \$5,734, and 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, 2021:

Future minimum lease payments due in:	
2022	\$ 66,558
2023	68,011
2024	69,463
2025	<u>52,470</u>
Total future minimum lease payments	<u>\$ 256,502</u>

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11. 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>2021</u>
Financial Assets:	
Cash and cash equivalents	\$ 716,549
Accounts receivable	199,507
Unconditional promises to give, current portion	575
Investments	<u>757,502</u>
Financial assets, at year-end	1,674,133
Less those unavailable for general expenditures within one year, due to donor and time restrictions	<u>(137,426)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,536,707</u>

The Foundation has a line of credit of \$30,000, all of which is available as of December 31, 2021, to be drawn upon in the event of an unanticipated liquidity need.

12. Related Party Transactions

The Foundation pays annual 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 \$25,000 for the year ended December 31, 2021. 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 \$7,875 for the year ended December 31, 2021.

13. New Accounting Pronouncements

During February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 (as amended) 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 (as amended) is effective for annual periods beginning after December 15, 2021 (2022 financial statements). The Foundation is currently assessing the effect that ASU No. 2016-02 will have on its statement of activities, financial position and cash flows.

During September 2020, FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The standard will be required to be applied retrospectively for annual periods beginning after June 15, 2021 (2022 financial statements). The Foundation does not believe that the adoption of ASU No. 2020-07 will have a material effect on its financial statements.