

Epilepsy Foundation of Michigan

Financial Statements

December 31, 2022 and 2021

Epilepsy Foundation of Michigan

Table of Contents

December 31, 2022 and 2021

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Statements of Functional Expenses	6
Notes to Financial Statements	8

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, 2022 and 2021, and the related statements of activities, cash flows and functional expenses for the years 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, 2022 and 2021, 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 (GAAP).

Basis for Opinion

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

Emphasis of Matter

As described in Note 1 to the financial statements, on January 1, 2022, the Foundation adopted Accounting Standards Codification Topic 842 as required by Accounting Standards Update 2016-02, *Leases* (Topic 842), and its related amendments. Our opinion is not modified with respect to this matter.

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
May 24, 2023

Epilepsy Foundation of Michigan

Statements of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 994,623	\$ 716,549
Accounts receivable	27,118	199,507
Unconditional promises to give	1,175	575
Prepaid expenses	<u>21,405</u>	<u>31,093</u>
Total current assets	<u>1,044,321</u>	<u>947,724</u>
Property and Equipment		
Furniture and equipment	162,455	134,355
Less accumulated depreciation	<u>(129,065)</u>	<u>(124,886)</u>
Net property and equipment	<u>33,390</u>	<u>9,469</u>
Other Assets		
Operating right-of-use asset	173,712	-
Investments	<u>856,195</u>	<u>757,502</u>
Total other assets	<u>1,029,907</u>	<u>757,502</u>
Total assets	<u>\$ 2,107,618</u>	<u>\$ 1,714,695</u>
Liabilities and Net Assets		
Current Liabilities		
Paycheck Protection Program loan	\$ -	\$ 101,815
Accounts payable	40,356	7,696
Accrued salaries and other benefits	53,624	60,939
Accrued expenses	334	743
Deferred revenues	2,250	12,014
Deferred rent	-	10,303
Operating lease liability	<u>64,334</u>	<u>-</u>
Total current liabilities	<u>160,898</u>	<u>193,510</u>
Long-Term Liabilities		
Operating lease liability, net of current portion	<u>118,815</u>	<u>-</u>
Total Liabilities	<u>279,713</u>	<u>193,510</u>
Net Assets		
Net assets without donor restrictions	1,750,951	1,383,759
Net assets with donor restrictions	<u>76,954</u>	<u>137,426</u>
Total net assets	<u>1,827,905</u>	<u>1,521,185</u>
Total liabilities and net assets	<u>\$ 2,107,618</u>	<u>\$ 1,714,695</u>

See notes to financial statements

Epilepsy Foundation of Michigan

Statements of Activities

Years Ended December 31, 2022 and 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2022 Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>
Public Support						
Foundation and corporate grants	\$ 121,395	\$ 1,105	\$ 122,500	\$ 88,725	\$ 21,000	\$ 109,725
Contributions	699,979	-	699,979	519,733	-	519,733
Bequests	7,183	-	7,183	83,493	-	83,493
United Way	12,726	-	12,726	21,007	-	21,007
Special events, net of direct expenses of \$175,268 and \$86,679 for 2022 and 2021, respectively	371,987	-	371,987	290,620	-	290,620
Net assets released from donor restrictions	61,577	(61,577)	-	46,888	(46,888)	-
Total public support	<u>1,274,847</u>	<u>(60,472)</u>	<u>1,214,375</u>	<u>1,050,466</u>	<u>(25,888)</u>	<u>1,024,578</u>
Revenue						
Revenues from governmental agencies	39,505	-	39,505	96,346	-	96,346
Program service fees	1,935	-	1,935	750	-	750
Net investment income (loss)	(97,732)	-	(97,732)	28,981	-	28,981
Paycheck Protection Program loan forgiveness income	101,815	-	101,815	101,812	-	101,812
Total revenue	<u>45,523</u>	<u>-</u>	<u>45,523</u>	<u>227,889</u>	<u>-</u>	<u>227,889</u>
Total public support and revenue	<u>1,320,370</u>	<u>(60,472)</u>	<u>1,259,898</u>	<u>1,278,355</u>	<u>(25,888)</u>	<u>1,252,467</u>
Functional Expenses						
Program	821,546	-	821,546	705,422	-	705,422
Management and general	113,343	-	113,343	104,500	-	104,500
Fundraising	18,289	-	18,289	11,577	-	11,577
Total functional expenses	<u>953,178</u>	<u>-</u>	<u>953,178</u>	<u>821,499</u>	<u>-</u>	<u>821,499</u>
Change in net assets	367,192	(60,472)	306,720	456,856	(25,888)	430,968
Net Assets, Beginning	<u>1,383,759</u>	<u>137,426</u>	<u>1,521,185</u>	<u>926,903</u>	<u>163,314</u>	<u>1,090,217</u>
Net Assets, Ending	<u>\$ 1,750,951</u>	<u>\$ 76,954</u>	<u>\$ 1,827,905</u>	<u>\$ 1,383,759</u>	<u>\$ 137,426</u>	<u>\$ 1,521,185</u>

See notes to financial statements

Epilepsy Foundation of Michigan

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 306,720	\$ 430,968
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	4,179	1,519
Forgiveness of Paycheck Protection Program loan	(101,815)	(101,812)
Noncash lease expense	61,221	(54,556)
Net realized and unrealized losses (gains) on investments	103,435	(26,166)
Changes in assets and liabilities:		
Accounts receivable	172,389	81,582
Unconditional promises to give	(600)	(2,743)
Prepaid expenses	9,688	(6,306)
Accounts payable	32,662	4,730
Accrued salaries and other benefits	(7,315)	(16,179)
Accrued expenses	(410)	(123)
Deferred revenues	(9,764)	11,827
Deferred rent	-	649
Operating lease liability	(62,088)	-
Net cash flows from operating activities	<u>508,302</u>	<u>323,390</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(28,101)	(5,516)
Proceeds from sales of investments	493,152	336,092
Purchases of investments	(495,279)	(341,390)
Transfers to investment account	(200,000)	(150,000)
Net cash flows from investing activities	<u>(230,228)</u>	<u>(160,814)</u>
Cash Flows From Financing Activities		
Proceeds from Paycheck Protection Program loan	-	101,815
Net change in cash and cash equivalents	278,074	264,391
Cash and Cash Equivalents, Beginning	<u>716,549</u>	<u>452,158</u>
Cash and Cash Equivalents, Ending	<u>\$ 994,623</u>	<u>\$ 716,549</u>
Supplemental Disclosure of Cash Flows Information		
Cash paid for amounts included in the measurement of the lease liability:		
Operating cash flows from operating lease	<u>\$ 64,987</u>	<u>\$ -</u>

See notes to financial statements

Epilepsy Foundation of Michigan

Statement of Functional Expenses

Year Ended December 31, 2022

	Individual and Family Services	Community Services	Advocacy and Public Policy	Total Program	Management and General	Fundraising	Total
Salaries, wages and employee benefits	\$ 220,617	\$ 323,314	\$ 7,984	\$ 551,915	\$ 64,703	\$ 4,343	\$ 620,961
Occupancy	21,171	35,720	643	57,534	7,452	643	65,629
Printing and mailing, materials and solicitation	1,704	9,454	34	11,192	405	1,812	13,409
Professional fees and contract services	12,486	42,861	10,047	65,394	20,188	3,281	88,863
Organizational dues and licenses	9,130	19,232	280	28,642	3,294	1,690	33,626
Equipment rentals and maintenance	2,458	3,943	75	6,476	872	75	7,423
Computer and network support	7,502	12,900	225	20,627	2,757	225	23,609
Educational events and camps	57,234	2,272	-	59,506	-	-	59,506
Telephone and internet	2,019	3,403	61	5,483	715	61	6,259
Travel	1,463	2,762	228	4,453	-	684	5,137
Staff and board development	-	1,002	-	1,002	1,754	399	3,155
Insurance, general and liability	1,941	3,008	49	4,998	3,563	35	8,596
Office	751	3,465	15	4,231	1,553	812	6,596
Third party fundraising	-	-	-	-	-	1,858	1,858
Miscellaneous	-	-	-	-	15	-	15
Bank charges	86	7	-	93	1,893	2,371	4,357
Depreciation	-	-	-	-	4,179	-	4,179
Subtotal expenses	338,562	463,343	19,641	821,546	113,343	18,289	953,178
Special events	-	-	-	-	-	175,268	175,268
Total expenses	<u>\$ 338,562</u>	<u>\$ 463,343</u>	<u>\$ 19,641</u>	<u>\$ 821,546</u>	<u>\$ 113,343</u>	<u>\$ 193,557</u>	<u>\$ 1,128,446</u>

See notes to financial statements

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, 2022 and 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, 2022 or 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, 2022 or 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

Notes to Financial Statements
December 31, 2022 and 2021

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, 2022 and 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, 2022 and 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 2 for additional disclosures related to fair value measurement.

Epilepsy Foundation of Michigan

Notes to Financial Statements
December 31, 2022 and 2021

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. Useful lives range from 3-7 years.

Impairment of Long-Lived Assets

The Foundation reviews long-lived assets, including property and equipment and right-of-use leased assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, management has determined that there have been no such impairments.

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 5 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.

Epilepsy Foundation of Michigan

Notes to Financial Statements
December 31, 2022 and 2021

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.

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.

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.

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.

Recently Adopted Accounting Pronouncements

Effective January 1, 2022, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), and all related amendments using the modified retrospective approach. The Foundation's 2021 financial statements continue to be accounted for under the FASB's Topic 840 and have not been adjusted.

Epilepsy Foundation of Michigan

Notes to Financial Statements
December 31, 2022 and 2021

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating leases are expensed on a straight-line basis as lease expense over the noncancelable lease term. Expenses for finance leases are comprised of the amortization of the right-of-use asset and interest expense recognized based on the effective interest method. At the date of adoption, the Foundation recorded an operating lease right-of-use asset \$173,712 and lease liability of \$183,149, respectively.

The new standard provides for several optional practical expedients. Upon transition to Topic 842, the Foundation elected the package of practical expedients permitted under the transition guidance which does not require the Foundation to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs.

The new standard also provides for several accounting policy elections, of which, the Foundation elected that when the rate implicit in the lease is not determinable, rather than use the Foundation's incremental borrowing rate, the Foundation uses a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all asset classes.

Additional required disclosures for Topic 842 are contained in Note 9.

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.

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.

Reclassification

For comparability, certain 2021 amounts have been reclassified to conform with classifications adopted in 2022. The reclassifications have no effect on reported amounts of net assets or change in net assets.

Subsequent Events

The Foundation has evaluated subsequent events occurring through May 24, 2023, 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
December 31, 2022 and 2021

2. Investments and Fair Value Measurement

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

	<u>2022</u>	<u>2021</u>
Common stocks	\$ 124,947	\$ 120,524
Mutual funds	179,337	238,020
Government bonds and treasury notes	-	232,950
Corporate bonds	<u>551,911</u>	<u>166,008</u>
Total investments	<u>\$ 856,195</u>	<u>\$ 757,502</u>

Net investment income (loss) for the years ended December 31 is summarized as follows:

	<u>2022</u>	<u>2021</u>
Interest and dividend income	\$ 15,390	\$ 11,836
Net realized and unrealized gains (losses)	(103,435)	26,166
Investment expenses	<u>(9,687)</u>	<u>(9,021)</u>
Total net investment income (loss)	<u>\$ (97,732)</u>	<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.

	December 31, 2022			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common stocks	\$ 124,947	\$ 124,947	\$ -	\$ -
Corporate bonds	551,911	551,911	-	-
Mutual funds	<u>179,337</u>	<u>179,337</u>	-	-
Total investments	<u>\$ 856,195</u>	<u>\$ 856,195</u>	<u>\$ -</u>	<u>\$ -</u>
	December 31, 2021			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed Income Investments:				
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>	-	-
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 years ended December 31, 2022 and 2021.

Epilepsy Foundation of Michigan

Notes to Financial Statements
December 31, 2022 and 2021

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. All unconditional promises as of December 31, 2022 and 2021 are current, as they are expected to be collected within one year.

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, 2022 or 2021.

5. 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 provided 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 were uncollateralized and guaranteed by the SBA and were forgivable after a "covered period" (of eight to twenty-four weeks) as long as the borrower maintained its payroll levels and used the loan proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent and utilities.

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 recorded 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
December 31, 2022 and 2021

6. Employee Retention Credit

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.

The Foundation accounted for this federal funding in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605 guidance for conditional contributions and, accordingly, revenues are measured and recognized when barriers are substantially met. The Foundation claimed credits on amended forms 941 of \$54,556 and \$47,234 as of and for the years ended December 31, 2021 and 2020, respectively. The Foundation's 2021 credit of \$54,556 is recorded in revenues from governmental agencies in the accompanying statements of activities. As of December 31, 2021, both credits were outstanding but received in 2022.

7. Classification of Net Assets

The net assets without donor restrictions totaling \$1,750,951 at December 31, 2022 and 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 years ended December 31, 2022 and 2021.

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

	<u>2022</u>	<u>2021</u>
Scholarships	\$ 419	\$ 1,314
Grant	<u>76,535</u>	<u>136,112</u>
Total net assets with donor restrictions	<u>\$ 76,954</u>	<u>\$ 137,426</u>

Epilepsy Foundation of Michigan

Notes to Financial Statements
December 31, 2022 and 2021

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

	<u>2022</u>	<u>2021</u>
Scholarships	\$ 2,000	\$ 2,000
Pledges receivable	-	1,000
Grant	<u>59,577</u>	<u>43,888</u>
Total net assets released from donor restrictions	<u>\$ 61,577</u>	<u>\$ 46,888</u>

8. 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 2022 and 2021 were \$14,121 and \$11,490, respectively.

9. Leases

The Foundation has a long-term lease agreement for office space. The lease agreement expires in 2025.

Leases, Prior to January 1, 2022

The long-term lease included escalating annual rents, accordingly, rent expense was recognized on a straight-line basis over the term of the lease based on the total rents called for under the base lease. The difference between straight-line rent expense and cash paid was deferred rent. Rent expense for the year ended December 31, 2021 was \$63,131.

Leases, January 1, 2022 and After

Right-of-use assets represent the Foundation's right to use an underlying asset for the lease term, while lease liabilities represent the Foundation's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

The exercise of lease renewal or early termination options is at the Foundation's sole discretion. The Foundation regularly evaluates the renewal and early termination options and when they are reasonably certain of exercise, the Foundation includes such options in the lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Foundation uses the rate implicit in the lease or if not readily available, the Foundation uses a risk-free rate based on U.S. Treasury note or bond rates for a similar term.

Right-of-use asset are assessed for impairment in accordance with the Foundation's long-lived asset policy. The Foundation reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

The Foundation made an assumptions and judgment in applying the requirements of Topic 842. In particular, the Foundation evaluated whether a contract contains a lease, by considering factors such as whether the Foundation obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights,

The Foundation does not have any material leasing transactions with a related entity.

Epilepsy Foundation of Michigan

Notes to Financial Statements
December 31, 2022 and 2021

The following table summarizes the operating lease right-of-use assets and lease liabilities as of December 31, 2022:

Operating lease right-of-use assets	<u>\$ 173,712</u>
Operating lease liabilities:	
Current	\$ 64,334
Long-term	<u>118,815</u>
Total operating lease liabilities	<u>\$ 183,149</u>

Operating lease expense for the long-term lease for the year ended December 31, 2022 was \$64,120. The right-of-use assets and lease liabilities were calculated using a weighted average discount rate of 1.37%. As of December 31, 2022, the weighted average remaining lease term was 2.76 years.

The table below summarizes the Foundation's scheduled future minimum operating lease payments for years ending after December 31, 2022:

Years ending December 31:	
2023	\$ 66,366
2024	67,725
2025	<u>52,470</u>
Total lease payments	186,561
Less present value discount	<u>3,412</u>
Total lease liability	183,149
Less current portion	<u>64,334</u>
Long-term lease liability	<u>\$ 118,815</u>

Epilepsy Foundation of Michigan

Notes to Financial Statements
December 31, 2022 and 2021

10. 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>2022</u>	<u>2021</u>
Financial Assets:		
Cash and cash equivalents	\$ 994,623	\$ 716,549
Accounts receivable	27,118	199,507
Unconditional promises to give	1,175	575
Investments	<u>856,195</u>	<u>757,502</u>
Financial assets, at year-end	1,879,111	1,674,133
Less those unavailable for general expenditures within one year, due to donor and time restrictions	<u>(76,954)</u>	<u>(137,426)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,802,157</u>	<u>\$ 1,536,707</u>

The Foundation has a line of credit of \$30,000, all of which is available as of December 31, 2022 and 2021, to be drawn upon in the event of an unanticipated liquidity need.

11. 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 years ended December 31, 2022 and 2021, 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 \$10,000 and \$7,875 for the years ended December 31, 2022 and 2021, respectively.