

Citizens United for Research in Epilepsy

Audited Financial Statements

*Years ended December 31, 2017 and 2016
with Report of Independent Auditors*

Citizens United for Research in Epilepsy

Audited Financial Statements

Years ended December 31, 2017 and 2016

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Report of Independent Auditors

Board of Directors
Citizens United for Research in Epilepsy
Chicago, Illinois

We have audited the accompanying financial statements of Citizens United for Research in Epilepsy (CURE) which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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.

Auditor's 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 auditor's 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 Citizens United for Research in Epilepsy as of December 31, 2017 and 2016, 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.

A handwritten signature in black ink that reads 'Johnson Lambert LLP' in a cursive script.

Park Ridge, Illinois
September 26, 2018

Citizens United for Research in Epilepsy

Statements of Financial Position
December 31,

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Assets						
Cash and cash equivalents	\$ 1,059,465	\$ -	\$ 1,059,465	\$ 1,270,694	\$ -	\$ 1,270,694
Investments	3,644,015	698,217	4,342,232	4,578,932	687,368	5,266,300
Contributions and grants receivable	33,592	1,060,000	1,093,592	146,766	1,200,000	1,346,766
Prepaid expenses and other assets	43,645	-	43,645	113,415	-	113,415
Fixed assets, less accumulated depreciation of \$66,802 in 2017 and \$45,775 in 2016	<u>96,867</u>	<u>-</u>	<u>96,867</u>	<u>109,990</u>	<u>-</u>	<u>109,990</u>
Total Assets	<u>\$ 4,877,584</u>	<u>\$ 1,758,217</u>	<u>\$ 6,635,801</u>	<u>\$ 6,219,797</u>	<u>\$ 1,887,368</u>	<u>\$ 8,107,165</u>
Liabilities and Net Assets						
Liabilities						
Accounts payable and accrued expenses	\$ 57,773	\$ -	\$ 57,773	\$ 122,173	\$ -	\$ 122,173
Grants payable	2,076,533	-	2,076,533	3,297,789	-	3,297,789
Deferred revenue	<u>488,322</u>	<u>-</u>	<u>488,322</u>	<u>565,033</u>	<u>-</u>	<u>565,033</u>
Total Liabilities	<u>2,622,628</u>	<u>-</u>	<u>2,622,628</u>	<u>3,984,995</u>	<u>-</u>	<u>3,984,995</u>
Net Assets	<u>2,254,956</u>	<u>1,758,217</u>	<u>4,013,173</u>	<u>2,234,802</u>	<u>1,887,368</u>	<u>4,122,170</u>
Total Liabilities and Net Assets	<u>\$ 4,877,584</u>	<u>\$ 1,758,217</u>	<u>\$ 6,635,801</u>	<u>\$ 6,219,797</u>	<u>\$ 1,887,368</u>	<u>\$ 8,107,165</u>

See accompanying notes to the financial statements.

Citizens United for Research in Epilepsy

Statements of Activities and Changes in Net Assets
Years ended December 31,

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Contributions						
Foundations	\$ 94,606	\$ -	\$ 94,606	\$ 133,631	\$ -	\$ 133,631
Corporate	288,567	125,000	413,567	285,997	100,000	385,997
Individuals	690,961	425,000	1,115,961	775,000	850,000	1,625,000
Other	20,864	-	20,864	66,445	-	66,445
In-kind	124,501	-	124,501	-	-	-
Special events						
Proceeds	2,536,459	-	2,536,459	2,280,312	-	2,280,312
Expenses	(483,633)	-	(483,633)	(603,375)	-	(603,375)
Net special events	2,052,826	-	2,052,826	1,676,937	-	1,676,937
Federal grant revenue	76,711	-	76,711	229,614	-	229,614
Interest and dividends	182,025	-	182,025	157,025	-	157,025
Net assets released from restriction	679,151	(679,151)	-	992,739	(992,739)	-
Total support and revenue	<u>4,210,212</u>	<u>(129,151)</u>	<u>4,081,061</u>	<u>4,317,388</u>	<u>(42,739)</u>	<u>4,274,649</u>
Expenses						
Program services	3,381,038	-	3,381,038	5,112,647	-	5,112,647
General administration	480,405	-	480,405	427,936	-	427,936
Fundraising	599,958	-	599,958	323,078	-	323,078
Total expenses	<u>4,461,401</u>	<u>-</u>	<u>4,461,401</u>	<u>5,863,661</u>	<u>-</u>	<u>5,863,661</u>
Change in net assets before change in fair value of investments	(251,189)	(129,151)	(380,340)	(1,546,273)	(42,739)	(1,589,012)
Change in fair value of investments	271,343	-	271,343	203,061	-	203,061
Total change in net assets	20,154	(129,151)	(108,997)	(1,343,212)	(42,739)	(1,385,951)
Net assets, beginning of year	<u>2,234,802</u>	<u>1,887,368</u>	<u>4,122,170</u>	<u>3,578,014</u>	<u>1,930,107</u>	<u>5,508,121</u>
Net assets, end of year	<u>\$ 2,254,956</u>	<u>\$ 1,758,217</u>	<u>\$ 4,013,173</u>	<u>\$ 2,234,802</u>	<u>\$ 1,887,368</u>	<u>\$ 4,122,170</u>

See accompanying notes to the financial statements.

Citizens United for Research in Epilepsy

Statement of Functional Expenses
Year ended December 31, 2017

	Program Services				General		Total
	Research	Awareness	Other programs	Total	Administration	Fundraising	
Grants	\$ 1,805,126	\$ -	\$ -	\$ 1,805,126	\$ -	\$ -	\$ 1,805,126
Salaries and wages	525,170	278,389	-	803,559	251,016	441,069	1,495,644
Payroll taxes	38,914	20,628	-	59,542	13,043	32,683	105,268
Employee benefits	51,477	32,758	-	84,235	16,379	16,379	116,993
Contractual services	65,425	34,816	-	100,241	8,033	8,033	116,307
Legal, audit and accounting	8,396	5,343	-	13,739	2,671	2,671	19,081
Insurance	4,841	3,081	-	7,922	1,540	1,540	11,002
Printing and publications	8,744	5,565	-	14,309	2,782	2,782	19,873
Bad debt expense	-	-	-	-	65,051	-	65,051
Postage	4,285	2,727	-	7,012	1,364	1,364	9,740
Occupancy	36,543	23,255	-	59,798	11,627	11,627	83,052
Telephone	5,235	3,332	-	8,567	1,666	1,666	11,899
Computer and internet	42,836	27,260	-	70,096	13,630	13,630	97,356
Supplies	2,957	1,882	-	4,839	941	941	6,721
Travel, meetings and related	2,436	1,550	31,642	35,628	32,522	775	68,925
Conferences	1,630	-	201,401	203,031	4,399	-	207,430
Awareness publicity	-	17,033	-	17,033	-	-	17,033
Advocacy Program	-	16,615	-	16,615	-	-	16,615
Awards	-	-	-	-	31	-	31
Bank charges	-	-	-	-	42,246	52,741	94,987
Equipment purchase, rental, and service	-	-	-	-	-	394	394
Fees and service payments	-	5,104	-	5,104	-	5,104	10,208
Web design and maintenance	-	30,904	-	30,904	-	-	30,904
Dues and subscriptions	10,253	6,524	-	16,777	3,262	3,262	23,301
Depreciation	8,789	5,593	-	14,382	2,796	2,796	19,974
Utilities	1,576	1,003	-	2,579	501	501	3,581
Other expenses	-	-	-	-	4,905	-	4,905
Total Expenses	<u>\$ 2,624,633</u>	<u>\$ 523,362</u>	<u>\$ 233,043</u>	<u>\$ 3,381,038</u>	<u>\$ 480,405</u>	<u>\$ 599,958</u>	<u>\$ 4,461,401</u>

See accompanying notes to the financial statements.

Citizens United for Research in Epilepsy

Statement of Functional Expenses
Year ended December 31, 2016

	Program Services				General		
	Research	Awareness	Other programs	Total	Administration	Fundraising	Total
Grants	\$ 3,369,674	\$ -	\$ -	\$ 3,369,674	\$ -	\$ -	\$ 3,369,674
Salaries and wages	579,300	368,646	-	947,946	184,323	184,323	1,316,592
Payroll taxes	39,938	25,415	-	65,353	12,708	12,708	90,769
Employee benefits	61,559	39,174	-	100,733	19,587	19,587	139,907
Contractual services	60,387	38,428	-	98,815	19,214	19,214	137,243
Legal, audit and accounting	6,162	3,921	-	10,083	1,961	1,961	14,005
Insurance	5,536	3,523	-	9,059	1,762	1,762	12,583
Printing and publications	6,893	11,752	-	18,645	2,193	2,193	23,031
Bad debt expense	-	-	-	-	50,000	-	50,000
Postage	1,910	1,216	-	3,126	608	608	4,342
Occupancy	33,426	21,271	-	54,697	10,635	10,635	75,967
Telephone	5,655	3,599	-	9,254	1,799	1,799	12,852
Computer and internet	46,730	29,737	-	76,467	14,869	14,869	106,205
Supplies	3,699	2,354	-	6,053	1,177	1,177	8,407
Travel, meetings and related	2,436	1,550	53,311	57,297	39,864	775	97,936
Conferences	23,522	-	117,710	141,232	13,312	-	154,544
Awareness publicity	-	16,263	-	16,263	-	-	16,263
Awards	-	-	-	-	1,384	-	1,384
Bank charges	-	-	-	-	42,821	38,367	81,188
Fees and service payments	-	6,469	-	6,469	-	6,469	12,938
Web design and maintenance	-	87,376	-	87,376	-	-	87,376
Dues and subscriptions	10,710	6,815	-	17,525	3,408	3,408	24,341
Depreciation	8,426	5,361	-	13,787	2,681	2,681	19,149
Utilities	1,707	1,086	-	2,793	543	542	3,878
Other expenses	-	-	-	-	3,087	-	3,087
Total expenses	\$ 4,267,670	\$ 673,956	\$ 171,021	\$ 5,112,647	\$ 427,936	\$ 323,078	\$ 5,863,661

See accompanying notes to the financial statements.

Citizens United for Research in Epilepsy

Statements of Cash Flows

	Years ended December 31,	
	2017	2016
Cash flows from operating activities		
Change in net assets	\$ (108,997)	\$ (1,385,951)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	21,027	19,149
Realized (gain) loss on sale of investments	(2,545)	48,827
Change in fair value of investments	(268,798)	(251,888)
Changes in operating assets and liabilities		
Grants and accounts receivable	253,174	(56,076)
Prepaid expenses and other assets	69,770	(41,773)
Accounts payable and accrued expenses	(64,400)	53,871
Grants payable	(1,221,256)	(111,946)
Deferred revenue	(76,711)	565,033
Net cash used in operating activities	(1,398,736)	(1,160,754)
Cash flows from investing activities		
Purchase of fixed assets	(7,904)	(1,446)
Proceeds from sale of investments	2,130,849	2,083,446
Purchases of investments	(935,438)	(380,532)
Net cash provided by investing activities	1,187,507	1,701,468
Change in cash and cash equivalents	(211,229)	540,714
Cash and cash equivalents, beginning of year	1,270,694	729,980
Cash and cash equivalents, end of year	\$ 1,059,465	\$ 1,270,694

See accompanying notes to the financial statements.

Citizens United for Research in Epilepsy

Notes to the Financial Statements

Years ended December 31, 2017 and 2016

Note A - Nature of Activities

Citizens United for Research in Epilepsy (CURE) was incorporated in September 1998, as an Illinois not-for-profit corporation. CURE is organized exclusively to stimulate and support medical and scientific research, education, and knowledge in the field of epilepsy and related seizure disorders with the overall objective of finding a cure for such disorders. CURE provides grant funding for research in epilepsy.

Note B - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, net assets of CURE and changes therein are classified and reported as follows:

Unrestricted net assets- Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets- Net assets subject to donor-imposed stipulations that may or will be met, either by actions of CURE and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restriction.

Permanently restricted net assets- Net assets subject to donor-imposed stipulations that they be maintained permanently by CURE. There are no permanently restricted net assets as of December 31, 2017 and 2016.

Subsequent Events

CURE has performed an evaluation of subsequent events through September 26, 2018, which is the date the financial statements were available to be issued and has considered any relevant matters in the preparation of the financial statements and footnotes.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

CURE is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been classified as an organization that is not a private foundation under Section 509(a)(2). Management has concluded that CURE has properly maintained its exempt status. The previous three tax years are subject to examination by federal authorities, there are currently no examinations being conducted.

Citizens United for Research in Epilepsy

Notes to the Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

CURE considers money market funds to be cash equivalents. Cash and cash equivalents excludes amounts included in the investment portfolio, which are designated for long-term investment purposes. Throughout the year, CURE may have cash and cash equivalents held by financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) coverage limits. Management does not consider the cash balances above the FDIC insured limit to be a significant credit risk.

Contributions and Grants Receivable

Contributions, including unconditional promises to give, and grants are recorded when received. Contributions and grants are considered to be available for unrestricted use unless specifically restricted by donors. Unconditional promises to give due in the next year are recorded at their net realizable value which approximates fair value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using adjusted risk-free interest rates applicable to the years in which the promises were received. The unamortized discount and allowance are reflected as reductions to contributions and grants receivable in the statements of financial position.

CURE does not maintain an allowance for doubtful accounts for these receivables, however, management does monitor and estimate the amount of any uncollectible balances throughout the year. Management records adjustments as necessary to bad debt expense for uncollectible receivables. These adjustments are reflected in the statements of activities and changes in net assets in the period written off. For the years ended December 31, 2017 and 2016, \$65,051 and \$50,000, respectively have been recorded as bad debt expense.

Federal Grant Revenue

Federal grant revenue represents reimbursements from the Department of Defense for expenses incurred; accordingly, grant revenues are equal to grant expenses, including allocated indirect costs.

Special Events

CURE conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to CURE. The direct costs of the special events, which ultimately benefit the donor rather than CURE, are recorded as exchange transaction revenue and exchange transaction expense. All proceeds received in excess of the direct costs are recorded as special events support in the accompanying statements of activities and changes in net assets.

Citizens United for Research in Epilepsy

Notes to the Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Fixed Assets

Furniture, fixtures and equipment expenditures of \$500 or more are recorded at cost or at estimated fair value, if donated, at the date of the gift. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire furniture, fixtures and office equipment are reported as temporarily restricted support. Absent donor stipulations regarding how long donated assets must be maintained, CURE reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. CURE reclassifies temporarily restricted net assets to unrestricted net assets at that time.

CURE depreciates furniture, fixture and equipment over their estimated useful lives (five years for equipment, seven years for furniture, and the lease term for leasehold improvements) using the straight-line method.

Investments and Fair Value Measurement

CURE carries its investments at fair value and reports gains and losses in the statements of activities and changes in net assets. The fair value of investments are based on quoted market prices at the reporting date.

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

In accordance with GAAP, CURE prioritizes the inputs to valuation techniques used to measure fair value. The levels of the hierarchy are as follows:

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

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

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

Citizens United for Research in Epilepsy

Notes to the Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Grants Payable

Grant funds are expended only for project purposes and activities that are approved by CURE's board of directors. Commitments of grant funds were incurred during the grant period, as defined by the beginning and end dates of the agreements. Grants payable is recorded on an annual basis upon notification to the recipient at the time of approval or renewal. Amounts expected to be paid over the next three years is as follows:

2018	\$	1,677,718
2019		393,815
2020		<u>5,000</u>
	\$	<u><u>2,076,533</u></u>

Donated Services and Materials

Donated services and materials are reported as contribution revenue and as assets and expenses only if services and materials create or enhance a nonfinancial asset, require specialized skills and are provided by individuals possessing those skills, are measurable, and would have been purchased if they had not been contributed. Donated services and materials are measured at fair value.

Functional Allocation of Expenses

CURE allocates its expenses to the separate functional categories of program services and supporting services based on actual direct expenditures and estimates of time spent by employees associated with the conduct of each function.

Note C - Investments and Fair Value Measurement

The components of CURE's investments consist of the following at December 31:

	<u>2017</u>	<u>2016</u>	<u>Level</u>
Mutual funds	\$ 4,329,514	\$ 4,524,506	1
U.S. equities	-	210,207	1
Money market funds	<u>12,718</u>	<u>531,587</u>	N/A
Total investments	<u>\$ 4,342,232</u>	<u>\$ 5,266,300</u>	

Citizens United for Research in Epilepsy

Notes to the Financial Statements (Continued)

Note C - Investments and Fair Value Measurement (Continued)

At December 31, 2017 and 2016, CURE's investments in mutual funds and equity securities are measured at fair value based on quoted market prices for identical assets in actively traded markets (Level 1). Money market funds do not meet the definition of securities under accounting standards and accordingly are not subject to the fair value measurement disclosure.

The following summarizes the investment gain (loss) return for the year ended December 31:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 182,025	\$ 157,025
Realized gains (losses)	2,545	(48,827)
Change in fair value of investments	<u>268,798</u>	<u>251,888</u>
	<u>\$ 453,368</u>	<u>\$ 360,086</u>

Note D - Contributions and Grants Receivable

Receivables at December 31 consist of the following:

	<u>2017</u>	<u>2016</u>
Receivable due within one year	\$ 506,925	\$ 820,099
Receivable due in one to five years	<u>586,667</u>	<u>526,667</u>
Contributions and grants receivables	<u>\$ 1,093,592</u>	<u>\$ 1,346,766</u>

Note E - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31 are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Future operations	\$ 1,037,374	\$ 1,087,368
Purpose restriction	<u>720,843</u>	<u>800,000</u>
Total temporarily restricted net assets	<u>\$ 1,758,217</u>	<u>\$ 1,887,368</u>

Net assets are released from donor restriction by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors. Amounts released from restriction at December 31, 2017 and 2016 satisfied the related time restrictions.

Note F - Pension Plan

CURE sponsors a 403b tax deferred annuity retirement plan which covers substantially all full-time employees. Eligible employees are allowed to participate in the plan by making tax-deferred contributions up to the IRS determined legal limits of the plan and CURE will match up to 3% of employees salaries. Pension expense for the years ended December 31, 2017 and 2016 was \$18,184 and \$17,020, respectively.

Citizens United for Research in Epilepsy

Notes to the Financial Statements (Continued)

Note G - Commitments

CURE leases its office space in Chicago, Illinois under an operating lease agreement. The agreement was amended in 2017 to expire on November 30, 2019. CURE recorded rent expense of \$83,052 and \$75,966 for the years ended December 31, 2017 and 2016, respectively. The future minimum lease payments are as follows:

<u>Fiscal Years Ending December 31,</u>	<u>Minimum Lease Payments</u>
2018	\$ 76,283
2019	79,585
	<u>\$ 155,868</u>

Note H - Related Party Transactions

CURE received \$506,474 and \$654,786 in 2017 and 2016, respectively from CURE's Board of Directors additionally, the statements of financial position include \$206,500 and \$250,000 in outstanding receivables as of December 31, 2017 and 2016, respectively from member's of CURE's Board of Directors.

Note I - Federal Grants

On September 30, 2015, CURE was awarded a federal grant in the amount of \$10,079,500 from the Department of Defense (DOD). This grant is subject to audit under the provisions of the Office of Management and Budget (OMB) Uniform Guidance. The ultimate determination of amounts received from the DOD are based upon the allowance of costs reported to and accepted by the DOD. Therefore, CURE will only recognize revenue for services actually performed for which the DOD has approved in accordance with the grant agreement.

For the years ended December 31, 2017 and 2016, CURE has federal grant expenditures of \$76,711 and \$229,614 and therefore, is not subject to audit under the provisions of OMB Uniform Guidance for the years then ended.