

Citizens United for Research in Epilepsy

Audited Financial Statements,
Supplementary Information, and
Uniform Guidance Reports

*Years ended December 31, 2018 and 2017
with Report of Independent Auditors*

Citizens United for Research in Epilepsy

Audited Financial Statements,
Supplementary Information, and
Uniform Guidance Reports

Years ended December 31, 2018 and 2017

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Report of Independent Auditors

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

Report on the Financial Statements

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, 2018 and 2017 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 15 is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Reporting on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2019, on our consideration of CURE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CURE's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Johnson Lambert LLP". The signature is written in black ink and is positioned above the typed address and date.

Park Ridge, Illinois
July 11, 2019

Citizens United for Research in Epilepsy

Statements of Financial Position

December 31,

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Cash and cash equivalents	\$ 1,613,851	\$ -	\$ 1,613,851	\$ 1,059,465	\$ -	\$ 1,059,465
Investments	3,168,948	544,259	3,713,207	3,644,015	698,217	4,342,232
Contributions and grants receivable	393,750	542,258	936,008	33,592	1,060,000	1,093,592
Prepaid expenses and other assets	53,183	-	53,183	43,645	-	43,645
Fixed assets, less accumulated depreciation of \$85,725 in 2018 and \$66,802 in 2017	78,986	-	78,986	96,867	-	96,867
Total Assets	\$ 5,308,718	\$ 1,086,517	\$ 6,395,235	\$ 4,877,584	\$ 1,758,217	\$ 6,635,801
Liabilities and Net Assets						
Liabilities						
Accounts payable and accrued expenses	\$ 115,448	\$ -	\$ 115,448	\$ 57,773	\$ -	\$ 57,773
Grants payable	712,099	-	712,099	2,076,533	-	2,076,533
Deferred revenue	276,694	-	276,694	488,322	-	488,322
Total Liabilities	1,104,241	-	1,104,241	2,622,628	-	2,622,628
Net Assets	4,204,477	1,086,517	5,290,994	2,254,956	1,758,217	4,013,173
Total Liabilities and Net Assets	\$ 5,308,718	\$ 1,086,517	\$ 6,395,235	\$ 4,877,584	\$ 1,758,217	\$ 6,635,801

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,

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue						
Contributions						
Foundations	\$ 275,323	\$ -	\$ 275,323	\$ 94,606	\$ -	\$ 94,606
Corporate	282,435	-	282,435	288,567	125,000	413,567
Individuals	806,023	400,000	1,206,023	690,961	425,000	1,115,961
Other	7,037	-	7,037	20,864	-	20,864
In-kind	196,875	-	196,875	124,501	-	124,501
Special events						
Proceeds	3,389,494	-	3,389,494	2,536,459	-	2,536,459
Expenses	<u>(715,135)</u>	<u>-</u>	<u>(715,135)</u>	<u>(483,633)</u>	<u>-</u>	<u>(483,633)</u>
Net special events	2,674,359	-	2,674,359	2,052,826	-	2,052,826
Federal grant revenue	2,564,383	-	2,564,383	76,711	-	76,711
Interest and dividends, net investment fees	71,470	-	71,470	150,654	-	150,654
Grants returned	235,280	-	235,280	-	-	-
Net assets released from restriction	<u>1,071,700</u>	<u>(1,071,700)</u>	<u>-</u>	<u>679,151</u>	<u>(679,151)</u>	<u>-</u>
Total support and revenue	<u>8,184,885</u>	<u>(671,700)</u>	<u>7,513,185</u>	<u>4,178,841</u>	<u>(129,151)</u>	<u>4,049,690</u>
Expenses						
Program services	4,879,727	-	4,879,727	3,381,038	-	3,381,038
General administration	427,351	-	427,351	449,034	-	449,034
Fundraising	<u>664,915</u>	<u>-</u>	<u>664,915</u>	<u>599,958</u>	<u>-</u>	<u>599,958</u>
Total expenses	<u>5,971,993</u>	<u>-</u>	<u>5,971,993</u>	<u>4,430,030</u>	<u>-</u>	<u>4,430,030</u>
Change in net assets before change in fair value of investments	2,212,892	(671,700)	1,541,192	(251,189)	(129,151)	(380,340)
Change in fair value of investments	<u>(263,371)</u>	<u>-</u>	<u>(263,371)</u>	<u>271,343</u>	<u>-</u>	<u>271,343</u>
Total change in net assets	1,949,521	(671,700)	1,277,821	20,154	(129,151)	(108,997)
Net assets, beginning 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>
Net assets, end of year	<u>\$ 4,204,477</u>	<u>\$ 1,086,517</u>	<u>\$ 5,290,994</u>	<u>\$ 2,254,956</u>	<u>\$ 1,758,217</u>	<u>\$ 4,013,173</u>

See accompanying notes to the financial statements.

Citizens United for Research in Epilepsy

Statement of Functional Expenses

Year ended December 31, 2018

	Program Services				Supporting Services		
	Research	Awareness	Other programs	Total	General Administration	Fundraising	Total
Grants	\$ 3,206,950	\$ -	\$ -	\$ 3,206,950	\$ -	\$ -	\$ 3,206,950
Salaries and wages	383,141	262,165	-	645,306	89,832	244,180	979,318
Payroll taxes	34,075	31,010	-	65,085	8,332	10,597	84,014
Employee benefits	28,376	24,937	-	53,313	12,898	19,777	85,988
In-kind	-	-	-	-	-	196,875	196,875
Professional fees	16,363	137,611	-	153,974	2,910	4,463	161,347
Insurance	4,049	3,558	-	7,607	1,840	2,822	12,269
Printing and publications	5,356	4,707	-	10,063	2,435	3,733	16,231
Bad debt expense	-	-	-	-	219,458	-	219,458
Postage	4,558	4,006	-	8,564	2,072	3,177	13,813
Occupancy	29,491	25,917	-	55,408	13,405	20,555	89,368
Telephone	4,082	3,588	-	7,670	1,856	2,845	12,371
Computer, website design and internet	27,497	166,634	12,190	206,321	12,498	19,164	237,983
Supplies	5,858	5,148	-	11,006	2,663	4,083	17,752
State registration	5,389	4,743	-	10,132	2,454	3,762	16,348
Subcontractors	69,495	61,071	-	130,566	31,589	48,436	210,591
Travel, meetings and related	8,380	7,364	21,376	37,120	3,809	5,853	46,782
Special events	-	-	-	-	-	715,135	715,135
Conferences	24,374	2,105	154,728	181,207	1,089	1,669	183,965
Advocacy and awareness	-	7,123	-	7,123	-	-	7,123
Bank and merchant charges	21,978	19,314	-	41,292	9,990	15,318	66,600
Dues and subscriptions	7,932	6,971	-	14,903	3,605	5,528	24,036
Depreciation	6,245	5,488	-	11,733	2,838	4,352	18,923
EEF	-	-	-	-	-	45,000	45,000
Other expenses	3,823	10,561	-	14,384	1,778	2,726	18,888
Total expenses	3,897,412	794,021	188,294	4,879,727	427,351	1,380,050	6,687,128
<i>Less expenses included with revenues on the statement of activities and changes in net assets</i>							
<i>Special events</i>	-	-	-	-	-	(715,135)	(715,135)
<i>Total expenses included in the expense section of the statement of activities and changes in net assets</i>	<u>\$ 3,897,412</u>	<u>\$ 794,021</u>	<u>\$ 188,294</u>	<u>\$ 4,879,727</u>	<u>\$ 427,351</u>	<u>\$ 664,915</u>	<u>\$ 5,971,993</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				Supporting Services		
	Research	Awareness	Other programs	Total	General Administration	Fundraising	Total
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
Professional fees	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
Special events	-	-	-	-	-	483,633	483,633
Conferences	1,630	-	201,401	203,031	4,399	-	207,430
Advocacy and awareness	-	33,648	-	33,648	-	-	33,648
Bank charges	-	-	-	-	10,875	52,741	63,616
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
Other expenses	1,576	1,003	-	2,579	5,437	895	8,911
Total expenses	2,624,633	523,362	233,043	3,381,038	449,034	1,083,591	4,913,663
<i>Less expenses included with revenues on the statement of activities and changes in net assets</i>							
Special events	-	-	-	-	-	(483,633)	(483,633)
<i>Total expenses included in the expense section of the statement of activities and changes in net assets</i>	<u>\$ 2,624,633</u>	<u>\$ 523,362</u>	<u>\$ 233,043</u>	<u>\$ 3,381,038</u>	<u>\$ 449,034</u>	<u>\$ 599,958</u>	<u>\$ 4,430,030</u>

See accompanying notes to the financial statements.

Citizens United for Research in Epilepsy

Statements of Cash Flows

	Years ended December 31,	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 1,277,821	\$ (108,997)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	18,923	21,027
Realized gain on sale of investments	(107)	(2,545)
Change in fair value of investments	263,371	(268,798)
Changes in operating assets and liabilities		
Grants and accounts receivable	157,584	253,174
Prepaid expenses and other assets	(9,538)	69,770
Accounts payable and accrued expenses	57,675	(64,400)
Grants payable	(1,364,434)	(1,221,256)
Deferred revenue	(211,628)	(76,711)
Net cash provided by (used in) operating activities	<u>189,667</u>	<u>(1,398,736)</u>
Cash flows from investing activities		
Purchase of fixed assets	(474)	(7,904)
Proceeds from sale of investments	911,009	2,130,849
Purchases of investments	(545,816)	(935,438)
Net cash provided by investing activities	<u>364,719</u>	<u>1,187,507</u>
Change in cash and cash equivalents	554,386	(211,229)
Cash and cash equivalents, beginning of year	<u>1,059,465</u>	<u>1,270,694</u>
Cash and cash equivalents, end of year	<u>\$ 1,613,851</u>	<u>\$ 1,059,465</u>

See accompanying notes to the financial statements.

Citizens United for Research in Epilepsy

Notes to the Financial Statements

Years ended December 31, 2018 and 2017

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:

Net Assets Without Donor Restrictions- Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions- Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose has been fulfilled, or both.

Subsequent Events

CURE has performed an evaluation of subsequent events through July 11, 2019, 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, 2018 and 2017, \$219,458 and \$65,051, 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 support without donor restriction 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 support with donor restriction. 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 net assets with donor restriction to net assets without donor restriction 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 net of related investment fees 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.

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 two years is as follows:

2019	\$	707,099
2020		<u>5,000</u>
	\$	<u>712,099</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

The statements of functional expenses present the natural classification detail of expenses by function. Certain categories of expenses are attributed to more than one program or supporting function, and therefore, require allocation on a reasonable basis that is consistently applied. Occupancy, depreciation, salaries and wages, employee benefits, payroll taxes, professional fees, office expenses, insurance, and other expenses are allocated on the basis of the head count of employees associated with the conduct of each function.

Recent Accounting Pronouncements

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14 *Not for Profit Entities (topic 958) Presentation of Financial Statements of Not-for-Profit-Entities*. The amendments in this update are designed to improve the net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The amendments in the ASU are effective for annual periods beginning after December 15, 2017. Management adopted the provisions of this ASU as of and for the year ended December 31, 2018. The adoption of the ASU did not have an effect on the amounts reported in the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting for Contributions Received and Contributions Made* (topic 958). The core principle of ASU 2018-08 is to clarify when the transfer of an asset or the extinguishment of a liability (the transaction) meets the definition of an exchange transaction or a contribution. When the transaction is an exchange transaction, an entity must apply Topic 606, *Revenue from Contracts with Customers* or other applicable Topics. When the transaction is a contribution, the ASU clarifies when the contribution is conditional and when revenue should be recognized. The amendments in the ASU are effective for annual periods beginning after December 15, 2018 for contributions received. Effective for fiscal years beginning after December 15, 2019 for contributions made. Early adoption is permitted. Management is evaluating the impact the amendments in this ASU will have on the financial statements.

Citizens United for Research in Epilepsy

Notes to the Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (topic 606). The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. The amendments in the ASU are effective for annual periods beginning after December 15, 2018 using either of two methods: (1) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined with the ASU; or (2) retrospective with the cumulative effect of initial adoption recognized at the date of initial application. Management has not yet selected a transition method and is currently evaluating the effects that the ASU will have on the financial statements.

In February 2016, the FASB issued amendments to ASU 2016-02, *Leases*. Among other things, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: 1) a lease liability, which is the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) a right of use asset, which is an asset that represents the lessee's right to use, or control the use of a specified asset for the lease term. The amendments in the ASU are effective for nonpublic business entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management is evaluating the impact the amendments in this ASU will have on the financial statements.

Note C - Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

	2018	2017
Cash and cash equivalents	\$ 1,613,851	\$ 1,059,465
Short-term investments	3,168,948	3,644,105
Contributions and grants receivable	393,750	33,592
Total financial assets available for general expenditure	<u>\$ 5,176,549</u>	<u>\$ 4,737,162</u>

As part of our liquidity management plan, CURE invests cash in excess of daily requirements in short-term investments and money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve.

Note D - Investments and Fair Value Measurement

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

	2018	2017	Level
Bond mutual funds	\$ 2,373,396	\$ 2,617,935	1
Equity mutual funds	1,322,912	1,711,579	1
Money market funds	16,899	12,718	N/A
Total investments	<u>\$ 3,713,207</u>	<u>\$ 4,342,232</u>	

At December 31, 2018 and 2017, CURE's investments in mutual funds 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.

Citizens United for Research in Epilepsy

Notes to the Financial Statements (Continued)

Note E - Contributions and Grants Receivable

Receivables at December 31 consist of the following:

	<u>2018</u>	<u>2017</u>
Receivable due within one year	\$ 806,008	\$ 506,925
Receivable due in one to five years	<u>130,000</u>	<u>586,667</u>
Contributions and grants receivables	<u>\$ 936,008</u>	<u>\$ 1,093,592</u>

Note F - Net Assets With Donor Restriction

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Subject to the passage of time	\$ 373,453	\$ 1,037,374
Subject to specified purpose	<u>713,064</u>	<u>720,843</u>
Total net assets with donor restriction	<u>\$ 1,086,517</u>	<u>\$ 1,758,217</u>

Net assets with donor restrictions subject to both the passage of time and purpose restrictions are released from restriction upon satisfying the last restriction.

Net assets are released from donor restriction by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors as follows for the year ended December 31:

	<u>2018</u>	<u>2017</u>
Expiration of time	\$ 613,922	\$ 507,526
Satisfaction of purpose	<u>457,778</u>	<u>171,625</u>
Total net assets released from restriction	<u>\$ 1,071,700</u>	<u>\$ 679,151</u>

Note G - 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, 2018 and 2017 was \$19,249 and \$18,184, respectively.

Note H - Commitments

CURE leases its office space in Chicago, Illinois under an operating lease agreement which expires on November 30, 2019. CURE recorded rent expense of \$92,368 and \$83,051 for the years ended December 31, 2018 and 2017, respectively. The future minimum lease payments are as follows:

<u>Fiscal Years Ending December 31,</u>	<u>Minimum Lease Payments</u>
2019	<u>\$ 79,585</u>

Citizens United for Research in Epilepsy

Notes to the Financial Statements (Continued)

Note I - Related Party Transactions

CURE received \$186,968 and \$506,474 in 2018 and 2017, respectively from CURE's Board of Directors additionally, the statements of financial position include \$50,000 and \$206,500 in outstanding receivables as of December 31, 2018 and 2017, respectively from members of CURE's Board of Directors.

Note J - 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.

Citizens United for Research in Epilepsy
Schedule of Expenditures of Federal Awards
Year ended December 31, 2018

Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
<i>Research and Development Award:</i>				
U.S. Department of Defense				
Military Medical Research and Development: Psychological Health and Traumatic Brian Injury	12.420	N/A	\$ 2,564,383	\$ 2,477,249
Total Expenditures of Federal Awards			<u>\$ 2,564,383</u>	<u>\$ 2,477,249</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Citizens United for Research in Epilepsy

Notes to the Schedule of Expenditures of Federal Awards

Year ended December 31, 2018

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") summarizes the expenditures of the Citizens United for Research in Epilepsy (CURE). The Schedule is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance")

For purposes of the Schedule, federal awards include all grants, contracts, and similar agreements entered into directly between CURE and agencies and departments of the federal government and all subawards made to CURE by nonfederal organizations pursuant to federal grants, contracts, and similar agreements.

Note B - Indirect Cost Rate

CURE has elected to adopt the de-minimis indirect cost rate of 10%.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Report of Independent Auditors

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Citizens United for Research in Epilepsy (CURE), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 11, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CURE's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CURE's internal control. Accordingly, we do not express an opinion on the effectiveness of CURE's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies, 2018-001 and 2018-002, described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies, 2018-003 and 2018-004, described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CURE's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CURE's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CURE's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnson Lambert LLP

Park Ridge, Illinois
July 11, 2019

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

Report of Independent Auditors

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

Report on Compliance for Each Major Federal Program

We have audited the Citizens United for Research in Epilepsy's (CURE) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2018. CURE's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of CURE's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CURE's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on CFDA 12.420 Psychological Health and Traumatic Brian Injury

As described in the accompanying Schedule of Findings and Questioned Costs, CURE did not comply with requirements regarding CFDA 12.420 Psychological Health and Traumatic Brian Injury as described in finding number 2018-002 for Reporting. Compliance with such requirements is necessary, in our opinion, for CURE to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 12.420 Psychological Health and Traumatic Brian Injury

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, CURE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 12.420 Psychological Health and Traumatic Brian Injury for the year ended December 31, 2018.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as finding 2018-002, that we consider to be a material weakness.

CURE's response to the internal control over compliance findings identified in our audit are described in the accompanying Management's Corrective Action Plan. CURE's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Park Ridge, Illinois
July 11, 2019

Citizens United for Research in Epilepsy
 Schedule of Findings and Questioned Costs
 Year ended December 31, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting: Material weakness identified?	Yes
Significant deficiency identified not considered to be a material weakness?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for the major program:	Qualified
Internal control over the major program: Material weakness identified?	Yes
Significant deficiency identified not considered to be a material weakness?	None reported
Any audit findings disclosed that are required to be reported in accordance with CFR.200.516(a)?	Yes
Identification of major program:	
<u>CFDA Number:</u> 12.420	<u>Name of Federal Program</u> Military Medical Research and Development: Psychological Health and Traumatic Brian Injury
Dollar threshold used to distinguish between Type A and B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

Finding 2018-001: Material Weakness Beginning Net Asset Balance

Criteria:

Revenue should be recognized in the statement of activities and changes in net assets as earned.

Condition:

CURE recorded the release of temporarily restricted net assets to unrestricted net assets during the year-end closing process prior to the finalizing of the trial balance.

Cause:

Due to lack of reconciliation controls over balance sheet accounts.

Citizens United for Research in Epilepsy
Schedule of Findings and Questioned Costs
Year ended December 31, 2018

Effect:

Beginning net assets were overstated and revenue was understated by \$940,000 as of and for the year ended December 31, 2018.

Repeat Finding:

No

Recommendation:

We recommend that management establish a policy that the release of temporarily restricted net assets be performed each year after the audit is complete to ensure activity is appropriately reflected.

View of Responsible Official and Planned Corrective Action Plan:

Reference is made to corrective action plan beginning on page 25.

Finding 2018-002: Material Weakness Federal Grant Reporting

Criteria:

Federal Funding Accountability and Transparency Act ("FFATA") requires prime grant recipients to file a subaward report for any sub award granted to a subrecipient that is more than \$25,000.

Condition:

CURE did not file a FFATA report for 4 subrecipients (100% of the population) who were awarded \$25,000 or more.

Cause:

Due to lack of controls surrounding the filings of FFATA reports for subrecipients.

Effect:

Noncompliance due to failure to file required FFATA reports.

Repeat Finding:

No

Recommendation:

We recommend that management implement procedures to ensure that they are complying with all reporting requirements of federal grants and agreements.

View of Responsible Official and Planned Corrective Action Plan:

Reference is made to corrective action plan beginning on page 25.

Finding 2018-003: Significant Deficiency Accounts Receivable

Criteria:

Cash payments should be applied to reduce accounts receivable balances.

Condition:

Citizens United for Research in Epilepsy
Schedule of Findings and Questioned Costs

Year ended December 31, 2018

CURE recorded cash payments made on amounts recorded as accounts receivable as revenue.

Cause:

Due to lack of reconciliation controls in place over balance sheet accounts.

Effect:

Revenue for the year ended December 31, 2018 was overstated by \$61,000.

Repeat Finding:

No

Recommendation:

We recommend that management establish a review process of the accounting records at least monthly to ensure activity is appropriately reflected.

View of Responsible Official and Planned Corrective Action Plan:

Reference is made to corrective action plan beginning on page 25.

Finding 2018-004: Restricted Net Assets

Criteria:

Net assets are released from restriction only after all donor restrictions have been satisfied.

Condition:

Management released amounts from restriction prior to satisfying donor restrictions.

Cause:

Due to lack of understanding accounting requirements for donor restricted gifts.

Effect:

Net assets with donor restrictions was understated by \$268,333.

Repeat Finding:

No

Recommendation:

We recommend that management attend training on accounting for gifts received by non-profit organizations.

View of Responsible Official and Planned Corrective Action Plan:

Reference is made to corrective action plan beginning on page 25.

Citizens United for Research in Epilepsy
Schedule of Findings and Questioned Costs
Year ended December 31, 2018

Section III - Federal Award Findings and Questioned Costs

Finding 2018-002: Material Weakness Federal Grant Reporting

Federal Award: Military Medical Research and Development: Psychological Health and Traumatic Brian Injury
CFDA Number: 12.420

Criteria:

Federal Funding Accountability and Transparency Act ("FFATA") requires prime grant recipients to file a subaward report for any sub award granted to a subrecipient that is more than \$25,000.

Condition:

CURE did not file a FFATA report for 4 subrecipients (100% of the population) who were awarded \$25,000 or more.

Questioned Cost:

There are no questioned cost related to this finding.

Context:

CURE failed to file 100% of the FFATA reports that were required.

Cause:

Due to lack of controls surrounding the filings of FFATA reports for subrecipients.

Effect:

Noncompliance due to failure to file required FFATA reports

Repeat Finding:

No

Recommendation:

We recommend that management implement procedures to ensure that they are complying with all reporting requirements of federal grants and agreements.

View of Responsible Official and Planned Corrective Action Plan:

Reference is made to corrective action plan beginning on page 25.