

Citizens United for Research in Epilepsy

Audited Financial Statements,
Supplementary Information, and
Uniform Guidance Reports

*Years ended December 31, 2019 and 2018
with Report of Independent Auditors*

Citizens United for Research in Epilepsy

Audited Financial Statements,
Supplementary Information, and
Uniform Guidance Reports

Years ended December 31, 2019 and 2018

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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, 2019 and 2018 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, 2019 and 2018, 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 page15 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 May 13, 2020, 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 black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Park Ridge, Illinois
May 13, 2020

Citizens United for Research in Epilepsy

Statements of Financial Position

December 31,

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Cash and cash equivalents	\$ 4,939,128	\$ -	\$ 4,939,128	\$ 1,613,851	\$ -	\$ 1,613,851
Investments	4,093,801	168,696	4,262,497	3,168,948	544,259	3,713,207
Contributions and grants receivable, net	206,985	1,634,188	1,841,173	393,750	542,258	936,008
Prepaid expenses and other assets	58,932	-	58,932	53,183	-	53,183
Fixed assets, less accumulated depreciation of \$151,828 in 2019 and \$85,725 in 2018	<u>57,265</u>	<u>-</u>	<u>57,265</u>	<u>78,986</u>	<u>-</u>	<u>78,986</u>
Total Assets	<u>\$ 9,356,111</u>	<u>\$ 1,802,884</u>	<u>\$ 11,158,995</u>	<u>\$ 5,308,718</u>	<u>\$ 1,086,517</u>	<u>\$ 6,395,235</u>
Liabilities and Net Assets						
Liabilities						
Accounts payable and accrued expenses	\$ 359,136	\$ -	\$ 359,136	\$ 115,448	\$ -	\$ 115,448
Grants payable	951,959	-	951,959	712,099	-	712,099
Refundable advance	<u>2,967,463</u>	<u>-</u>	<u>2,967,463</u>	<u>276,694</u>	<u>-</u>	<u>276,694</u>
Total Liabilities	4,278,558	-	4,278,558	1,104,241	-	1,104,241
Net Assets	<u>5,077,553</u>	<u>1,802,884</u>	<u>6,880,437</u>	<u>4,204,477</u>	<u>1,086,517</u>	<u>5,290,994</u>
Total Liabilities and Net Assets	<u>\$ 9,356,111</u>	<u>\$ 1,802,884</u>	<u>\$ 11,158,995</u>	<u>\$ 5,308,718</u>	<u>\$ 1,086,517</u>	<u>\$ 6,395,235</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,

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue						
Contributions						
Foundations	\$ 286,332	\$ -	\$ 286,332	\$ 275,323	\$ -	\$ 275,323
Corporate	161,787	-	161,787	282,435	-	282,435
Individuals	732,312	2,021,218	2,753,530	806,023	400,000	1,206,023
Other	4,239	-	4,239	7,037	-	7,037
In-kind	83,210	-	83,210	196,875	-	196,875
Special events						
Proceeds	2,300,296	-	2,300,296	3,389,494	-	3,389,494
Expenses	(488,723)	-	(488,723)	(715,135)	-	(715,135)
Net special events	1,811,573	-	1,811,573	2,674,359	-	2,674,359
Federal grant revenue	2,252,602	-	2,252,602	2,564,383	-	2,564,383
Interest and dividends, net investment fees	150,044	-	150,044	71,470	-	71,470
Grants returned	15,459	-	15,459	235,280	-	235,280
Net assets released from restriction	1,304,851	(1,304,851)	-	1,071,700	(1,071,700)	-
Total support and revenue	<u>6,802,409</u>	<u>716,367</u>	<u>7,518,776</u>	<u>8,184,885</u>	<u>(671,700)</u>	<u>7,513,185</u>
Expenses						
Program services	5,343,538	-	5,343,538	4,879,727	-	4,879,727
General administration	430,827	-	430,827	427,351	-	427,351
Fundraising	497,829	-	497,829	664,915	-	664,915
Total expenses	<u>6,272,194</u>	<u>-</u>	<u>6,272,194</u>	<u>5,971,993</u>	<u>-</u>	<u>5,971,993</u>
Change in net assets before change in fair value of investments	530,215	716,367	1,246,582	2,212,892	(671,700)	1,541,192
Change in fair value of investments	<u>342,861</u>	<u>-</u>	<u>342,861</u>	<u>(263,371)</u>	<u>-</u>	<u>(263,371)</u>
Total change in net assets	873,076	716,367	1,589,443	1,949,521	(671,700)	1,277,821
Net assets, beginning 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>
Net assets, end of year	<u>\$ 5,077,553</u>	<u>\$ 1,802,884</u>	<u>\$ 6,880,437</u>	<u>\$ 4,204,477</u>	<u>\$ 1,086,517</u>	<u>\$ 5,290,994</u>

See accompanying notes to the financial statements.

Citizens United for Research in Epilepsy

Statement of Functional Expenses

Year ended December 31, 2019

	Program Services				Supporting Services		
	Research	Awareness	Other programs	Total	General Administration	Fundraising	Total
Grants	\$ 3,255,271	\$ -	\$ -	\$ 3,255,271	\$ -	\$ -	\$ 3,255,271
Salaries and wages	554,524	340,343	-	894,867	210,135	238,166	1,343,168
Payroll taxes	45,060	25,950	-	71,010	15,664	18,798	105,472
Employee benefits	58,575	37,237	-	95,812	25,263	26,166	147,241
In-kind	25,795	20,803	-	46,598	21,634	14,978	83,210
Professional fees	24,681	141,394	-	166,075	17,393	40,861	224,329
Insurance	4,499	2,761	-	7,260	1,705	2,411	11,376
Printing and publications	6,806	33,772	-	40,578	2,463	36,455	79,496
Postage	4,266	2,319	-	6,585	1,432	19,273	27,290
Occupancy	37,482	23,005	-	60,487	14,204	16,098	90,789
Telephone	5,619	3,449	-	9,068	2,129	2,413	13,610
Computer, web development and internet	53,565	254,869	-	308,434	15,679	17,770	341,883
Supplies	1,954	1,199	-	3,153	741	8,993	12,887
State registration	7,130	4,376	-	11,506	2,702	3,062	17,270
Subcontractors	87,747	53,855	-	141,602	33,251	37,687	212,540
Travel, meetings and related	5,993	3,678	-	9,671	2,270	2,574	14,515
Conferences and functions	123,727	801	-	124,528	440	416,862	541,830
Advocacy and awareness	-	19,998	-	19,998	-	-	19,998
Bank, merchant and investment fees	31,433	20,839	-	52,272	15,605	14,713	82,590
Dues and subscriptions	4,765	2,071	-	6,836	1,279	1,465	9,580
Depreciation	7,239	4,443	-	11,682	2,743	3,109	17,534
Fixed asset retirement	-	-	-	-	48,570	-	48,570
EEF	-	-	-	-	-	50,000	50,000
Other expenses	1,200	13,560	-	14,760	2,265	19,363	36,388
Total expenses	4,347,331	1,010,722	-	5,358,053	437,567	991,217	6,786,837
Less expenses included with revenues on the statement of activities and changes in net assets							
Investment fees	(8,035)	(6,480)	-	(14,515)	(6,740)	(4,665)	(25,920)
Special events	-	-	-	-	-	(488,723)	(488,723)
Total expenses included in the expense section of the statement of activities and changes in net assets	\$ 4,339,296	\$ 1,004,242	\$ -	\$ 5,343,538	\$ 430,827	\$ 497,829	\$ 6,272,194

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	3,337	12,784
Printing and publications	5,356	4,707	-	10,063	2,435	29,551	42,049
Bad debt expense	-	-	-	-	219,458	-	219,458
Postage	4,558	4,006	-	8,564	2,072	12,755	23,391
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	26,415	40,084
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
Conferences and functions	24,374	2,105	154,728	181,207	1,089	624,842	807,138
Advocacy and awareness	-	7,123	-	7,123	-	-	7,123
Bank, merchant and investment fees	30,500	26,803	-	57,303	13,864	21,258	92,425
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	36,445	52,607
Total expenses	3,905,934	801,510	188,294	4,895,738	431,225	1,385,990	6,712,953
<i>Less expenses included with revenues on the statement of activities and changes in net assets</i>							
Investment fees	(8,522)	(7,489)	-	(16,011)	(3,874)	(5,940)	(25,825)
Special events	-	-	-	-	-	(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

Statements of Cash Flows

	Years ended December 31,	
	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 1,589,443	\$ 1,277,821
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	17,534	18,923
Realized gain on sale of investments	(109)	(107)
Disposal of fixed assets	48,570	-
Change in fair value of investments	(342,861)	263,371
Discount on long-term receivables	65,007	-
Changes in operating assets and liabilities		
Grants and accounts receivable	(970,172)	157,584
Prepaid expenses and other assets	(5,749)	(9,538)
Accounts payable and accrued expenses	243,688	57,675
Grants payable	239,860	(1,364,434)
Deferred revenue	2,690,769	(211,628)
Net cash provided by operating activities	<u>3,575,980</u>	<u>189,667</u>
Cash flows from investing activities		
Purchase of fixed assets	(44,383)	(474)
Proceeds from sale of investments	121,486	911,009
Purchases of investments	<u>(327,806)</u>	<u>(545,816)</u>
Net cash (used in) provided by investing activities	<u>(250,703)</u>	<u>364,719</u>
Change in cash and cash equivalents	3,325,277	554,386
Cash and cash equivalents, beginning of year	<u>1,613,851</u>	<u>1,059,465</u>
Cash and cash equivalents, end of year	<u>\$ 4,939,128</u>	<u>\$ 1,613,851</u>

See accompanying notes to the financial statements.

Citizens United for Research in Epilepsy

Notes to the Financial Statements

Years ended December 31, 2019 and 2018

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 May 13, 2020, 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 more than one year are reported at fair value, on a nonrecurring basis, using the present value technique and are determined to be level 2 within the fair value hierarchy. CURE selects a risk-adjusted discount interest rate designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discount is included in contribution revenue in the statement of activities and changes in net assets.

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, 2019 and 2018, \$0 and \$219,458, respectively have been recorded as bad debt expense.

Federal Grant Revenue

Federal grant revenue is derived from cost-reimbursable federal contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when CURE has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. CURE received an advance payment of \$2,967,463 and \$276,694 recognized in the statement of financial position as a refundable advance as of December 31, 2019 and 2018, respectively. These amounts have not been recognized as revenue as qualifying expenses have not yet been incurred.

Special Events

CURE holds special events in which a portion of the gross proceeds paid by participants represent payment for the direct cost of the benefits received by the participant at the event— the exchange component, and a portion represents a contribution to the CURE. 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 contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The direct costs of the special events, which ultimately benefit the donor rather than CURE, are recorded as costs of direct donor benefits in the statement of activities and changes in net assets. The performance obligation is delivery of the event, which is usually accompanied by a presentation. The event fee is set by CURE. Special event fees collected by CURE in advance of its delivery are initially recognized as deferred revenue and recognized as special event revenue after delivery of the event. CURE has determined that the inherent contribution of amounts received in advanced are conditioned on the event taking place and are therefore treated as a refundable advance along with the exchange component.

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.

Reclassification

Certain prior year amounts have been reclassified to conform with current year presentation.

Citizens United for Research in Epilepsy

Notes to the Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Grants Payable

Grant requests are recorded as grants payable once approved by CURE's board of directors. Grants payable is recorded on an annual basis upon notification to the recipient at the time of approval or renewal. As of December 31, 2019, management has determined that the effects of discounting grants payable due beyond one year would be immaterial. As such, as of December 31, 2019, grants payable for future years are not discounted to present value. Amounts expected to be paid over the next three years is as follows:

2020	\$	700,464
2021		236,495
2022		15,000
	\$	<u>951,959</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.

Accounting Pronouncements Adopted

As of January 1, 2019, CURE adopted the provisions of ASU 2014-09, *Revenue from Contract with Customers* (Topic 606). ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued financial statements.

CURE also adopted the provisions of ASU 2018-08, *Clarifying the Scope and Accounting for Contributions Received and Contributions Made* (Topic 958). This accounting standard is meant to help not-for-profit entities evaluate whether transactions should be accounted for as contributions or as exchange transactions and, if the transaction is identified as a contribution, whether it is conditional or unconditional. There was no impact to the financial statements as a result of adoption. Accordingly, no adjustment to opening net assets was recorded.

Citizens United for Research in Epilepsy

Notes to the Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

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 as of and for the year ended December 31, 2021. 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:

	2019	2018
Cash and cash equivalents	\$ 4,939,128	\$ 1,613,851
Short-term investments	4,093,801	3,168,948
Contributions and grants receivable	206,985	393,750
Total financial assets available for general expenditure	<u>\$ 9,239,914</u>	<u>\$ 5,176,549</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:

	2019	2018	Level
Bond mutual funds	\$ 2,470,385	\$ 2,373,396	1
Equity mutual funds	1,729,526	1,322,912	1
Money market funds	62,586	16,899	N/A
Total investments	<u>\$ 4,262,497</u>	<u>\$ 3,713,207</u>	

At December 31, 2019 and 2018, 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.

Note E - Contributions and Grants Receivable

Receivables at December 31 consist of the following:

	2019	2018
Receivable due within one year	\$ 686,180	\$ 806,008
Receivable due in one to five years	1,220,000	130,000
Less discount on long-term receivables	(65,007)	-
Contributions and grants receivables	<u>\$ 1,841,173</u>	<u>\$ 936,008</u>

Citizens United for Research in Epilepsy

Notes to the Financial Statements (Continued)

Note F - Net Assets With Donor Restriction

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

	2019	2018
Subject to the passage of time	\$ 1,701,540	\$ 373,453
Subject to specified purpose	101,344	713,064
Total net assets with donor restriction	<u>\$ 1,802,884</u>	<u>\$ 1,086,517</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:

	2019	2018
Expiration of time	\$ 706,906	\$ 613,922
Satisfaction of purpose	597,945	457,778
Total net assets released from restriction	<u>\$ 1,304,851</u>	<u>\$ 1,071,700</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, 2019 and 2018 was \$28,919 and \$19,249, respectively.

Note H - Commitments

CURE leases its office space in Chicago, Illinois under an operating lease agreement which expired on November 30, 2019. At which time, CURE executed a non-cancelable lease agreement which expires on September 30, 2030. In addition to the base rent, CURE is also required to pay a proportionate share of building operating and real estate tax expenses. CURE recorded rent expense of \$90,790 and \$92,367 for the years ended December 31, 2019 and 2018, respectively. The future minimum lease payments are as follows:

Fiscal Years Ending December 31,	Minimum Lease Payments
2020	\$ 10,644
2021	64,790
2022	66,410
2023	68,070
2024	69,772
Thereafter	436,472

Citizens United for Research in Epilepsy

Notes to the Financial Statements (Continued)

Note I - Related Party Transactions

CURE received \$2,126,280 and \$186,968 in 2019 and 2018, respectively from CURE's Board of Directors additionally, the statements of financial position include \$1,600,000 and \$50,000 in outstanding receivables as of December 31, 2019 and 2018, 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.

Note K - Subsequent Event

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets. Because this event is early in development, there is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies, and as such, CURE is unable to determine if it will have a material impact to its operations.

In April 2020, in light of this economic uncertainty, CURE applied for a loan under the Paycheck Protection Program offered under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) signed into law on March 27, 2020. The loan was approved and amounts were dispersed to CURE totaling \$236,600. At present, CURE anticipates fully utilizing this loan to maintain payroll as well as fund employee benefits, rent and utility costs over the eight week period after receipt of the loan. Per the interim Department of Treasury regulations for the CARES Act, the portions of this loan amount utilized by CURE for Program authorized business purposes may be eligible for forgiveness without debt relief income effect to CURE.

Citizens United for Research in Epilepsy

Schedule of Expenditures of Federal Awards

Year ended December 31, 2019

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	\$ 2,253,060	\$ 2,052,404
Total Expenditures of Federal Awards			<u>\$ 2,253,060</u>	<u>\$ 2,052,404</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, 2019

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, 2019, 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 May 13, 2020.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

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

Park Ridge, Illinois
May 13, 2020

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, 2019. 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.

Opinion on Each Major Federal Program

In our opinion, CURE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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
May 13, 2020

Citizens United for Research in Epilepsy
Schedule of Findings and Questioned Costs
Year ended December 31, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified not considered to be a material weakness?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for the major program:	Unmodified
Internal control over the major program:	
Material weakness identified?	No
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)?	No
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

None

Section III - Federal Award Findings and Questioned Costs

None

Citizens United for Research in Epilepsy
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2019

For the Year Ended December 31, 2019

FISCAL YEAR	FINDING NUMBER	FINDING AND CORRECTIVE PLAN
2018	2018-01	<u>Finding:</u> CURE recorded the release of temporarily restricted net assets to unrestricted net assets during the year-end closing process prior to the finalizing the trial balance. <u>Questioned Cost:</u> CFDA # 12.420 Amount \$940,000 <u>Corrective Action:</u> A policy was established and implemented that the release of temporarily restricted net assets will be recorded in the general ledger each year only at the conclusion of the audit. This has been successfully executed for fiscal 2019. <u>Completion date:</u> April 30, 2019
2018	2018-02	<u>Finding:</u> 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. CURE did not file the necessary FFATA reports for the year ending December 31, 2018. <u>Questioned Cost:</u> CFDA # 12.420 Amount: not applicable <u>Corrective Action:</u> Management filed the delinquent FFATA reports and implemented procedures to ensure compliance moving forward. We are presently current with our Federal filings for each of our sub-awards, and the Federal Government has acknowledged our current compliance. <u>Completion date:</u> May 31, 2019

2018**2018-03**Finding:

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

Questioned Cost:

CFDA # 12.420

Amount \$61,000

Corrective Action:

Management established and fully implemented a monthly review process of all donation receipts to ensure any payments from individuals we currently have receivables due are appropriately reflected. Receivables due are tracked in detail as part of our monthly balance sheet reconciliations to ensure compliance. New control procedures operated effectively for fiscal 2019.

Completion date:

April 30, 2019

2018**2018-04**Finding:

Management released amounts from restriction prior to satisfying all the donor restrictions.

Questioned Cost:

CFDA # 12.420

Amount: not applicable

Corrective Action:

Management is now fully trained and capable to ensure amounts are not released from restriction until all time and purpose restrictions have been satisfied. It is also our policy not to record the release of any amounts in our financial systems until the completion of our annual audit. New control procedures operated effectively for fiscal 2019

Completion date:

April 30, 2019