

COMBINED FINANCIAL STATEMENTS

**EPILEPSY FOUNDATION NATIONAL
OFFICE AND AFFILIATES**

**FOR THE YEARS ENDED
JUNE 30, 2008 AND 2007**

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Epilepsy Foundation
Landover, Maryland

We have compiled the accompanying combined statements of financial position of the Epilepsy Foundation National Office and Affiliates as of June 30, 2008 and 2007, and the related combined statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying combined financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Gelman Rosenberg & Freedman

October 12, 2009

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EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

COMBINED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2008 AND 2007

ASSETS		
	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 17,282,590	\$ 13,390,434
Accounts receivable (net of allowance for doubtful accounts of \$363,234 and \$161,476 for 2008 and 2007, respectively):		
Contributions and fees	8,866,190	8,950,130
Government grants	7,827,143	7,579,184
Other receivables	355,299	222,834
Total accounts receivable	<u>17,048,632</u>	<u>16,752,148</u>
Prepaid expenses and other assets	2,278,972	2,411,284
Inventories	76,847	85,523
Interest in perpetual trust	3,535,541	3,630,821
Investments (Note 3)	27,817,975	30,364,406
Property and equipment, net of depreciation (Note 4)	<u>10,421,289</u>	<u>10,404,816</u>
TOTAL ASSETS	<u>\$ 78,461,846</u>	<u>\$ 77,039,432</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 9,792,025	\$ 8,564,786
Grants payable	3,101,861	3,014,750
Deferred revenue	4,292,647	5,630,743
Capital lease obligations (Note 5)	2,342,189	1,423,077
Notes payable (Note 6)	4,425,307	4,845,769
Total liabilities	<u>23,954,029</u>	<u>23,479,125</u>
NET ASSETS		
Unrestricted	30,351,799	27,361,306
Temporarily restricted (Note 7)	16,118,013	18,013,545
Permanently restricted (Note 9)	8,038,005	8,185,456
Total net assets	<u>54,507,817</u>	<u>53,560,307</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 78,461,846</u>	<u>\$ 77,039,432</u>

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES
COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS, AND OTHER SUPPORT								
Contributions	\$ 12,924,192	\$ 6,141,320	\$ 45,530	\$ 19,111,042	\$ 18,077,823	\$ 5,773,424	\$ 298,310	\$ 24,149,557
Government grants	57,342,250	214,822	-	57,557,072	51,662,267	154,619	-	51,816,886
Program service fees	3,563,052	14,845	-	3,577,897	2,109,842	21,326	-	2,131,168
Sales of materials	122,792	-	-	122,792	142,938	-	-	142,938
Special events, net of direct cost of \$3,876,691 and \$6,417,061	8,343,346	118,211	115	8,461,672	6,581,288	271,281	-	6,852,569
Investment (loss) income (Note 3)	422,026	(757,584)	(95,172)	(430,730)	2,167,209	1,765,709	86,946	4,019,864
Other	1,214,871	150,091	-	1,364,962	389,555	89,778	-	479,333
Change in value of split interest agreements	174,955	1,529	(95,280)	81,204	182,520	3,569	244,820	430,909
Provision for uncollectible pledges	(200,000)	-	-	(200,000)	(200,000)	-	-	(200,000)
Net assets released from restrictions - satisfaction of program restrictions (Note 8)	7,782,000	(7,779,356)	(2,644)	-	6,665,935	(6,619,008)	(46,927)	-
Total revenue, gains, and other support	<u>91,689,484</u>	<u>(1,896,122)</u>	<u>(147,451)</u>	<u>89,645,911</u>	<u>87,779,377</u>	<u>1,460,698</u>	<u>583,149</u>	<u>89,823,224</u>
EXPENSES								
Program Services:								
Research	3,662,096	-	-	3,662,096	3,050,610	-	-	3,050,610
Public Health Education	6,475,416	-	-	6,475,416	6,186,394	-	-	6,186,394
Professional Education/Training	1,837,551	-	-	1,837,551	1,808,355	-	-	1,808,355
Community Services	7,605,649	-	-	7,605,649	7,566,387	-	-	7,566,387
Patient Services	57,623,050	-	-	57,623,050	51,273,730	-	-	51,273,730
Total program services	<u>77,203,762</u>	<u>-</u>	<u>-</u>	<u>77,203,762</u>	<u>69,885,476</u>	<u>-</u>	<u>-</u>	<u>69,885,476</u>
Supporting Services:								
Management and General	8,144,732	-	-	8,144,732	7,852,330	-	-	7,852,330
Fundraising	3,848,762	-	-	3,848,762	3,702,574	-	-	3,702,574
Total supporting services	<u>11,993,494</u>	<u>-</u>	<u>-</u>	<u>11,993,494</u>	<u>11,554,904</u>	<u>-</u>	<u>-</u>	<u>11,554,904</u>
Total expenses	<u>89,197,256</u>	<u>-</u>	<u>-</u>	<u>89,197,256</u>	<u>81,440,380</u>	<u>-</u>	<u>-</u>	<u>81,440,380</u>
Changes in net assets	<u>2,492,228</u>	<u>(1,896,122)</u>	<u>(147,451)</u>	<u>448,655</u>	<u>6,338,997</u>	<u>1,460,698</u>	<u>583,149</u>	<u>8,382,844</u>
Net assets, beginning of year	27,361,306	18,013,545	8,185,456	53,560,307	20,603,311	16,552,847	7,602,307	44,758,465
Merger of investment assets from former affiliate	-	-	-	-	432,373	-	-	432,373
Changes in affiliation (Note 13)	498,265	590	-	498,855	(13,375)	-	-	(13,375)
Net assets, beginning of year, as restated	<u>27,859,571</u>	<u>18,014,135</u>	<u>8,185,456</u>	<u>54,059,162</u>	<u>21,022,309</u>	<u>16,552,847</u>	<u>7,602,307</u>	<u>45,177,463</u>
NET ASSETS, END OF YEAR	<u>\$ 30,351,799</u>	<u>\$ 16,118,013</u>	<u>\$ 8,038,005</u>	<u>\$ 54,507,817</u>	<u>\$ 27,361,306</u>	<u>\$ 18,013,545</u>	<u>\$ 8,185,456</u>	<u>\$ 53,560,307</u>

See accompanying notes and accountants' compilation report.

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008

	Program Services					Supporting Services				Total Expenses
	Research	Public Health Education	Professional Education/ Training	Community Services	Patient Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 233,790	\$ 2,711,934	\$ 775,875	\$ 3,556,900	\$ 27,634,871	\$ 34,913,370	\$ 4,050,802	\$ 1,760,971	\$ 5,811,773	\$ 40,725,143
Employee benefits, payroll taxes, and costs (Note 11)	49,517	519,958	155,258	635,883	5,921,384	7,282,000	894,958	354,427	1,249,385	8,531,385
Temporary personnel	3,139	51,161	321	23,981	58,745	137,347	12,585	11,115	23,700	161,047
Total salary and benefit expenses	286,446	3,283,053	931,454	4,216,764	33,615,000	42,332,717	4,958,345	2,126,513	7,084,858	49,417,575
Professional fees and contract services	7,870	846,062	197,620	930,666	6,292,670	8,274,888	1,319,872	431,510	1,751,382	10,026,270
Supplies and materials	5,379	303,878	39,174	132,743	1,893,027	2,374,201	307,954	281,460	589,414	2,963,615
Telephone	10,556	81,079	19,723	103,555	447,164	662,077	68,877	31,471	100,348	762,425
Postage and shipping	5,760	285,054	37,638	77,207	195,478	601,137	46,252	238,651	284,903	886,040
Occupancy (Note 10)	204,218	434,908	117,979	584,498	3,280,396	4,621,999	599,127	202,984	802,111	5,424,110
Membership	2,139	35,882	11,489	71,963	131,904	253,377	90,924	30,145	121,069	374,446
Rental and maintenance of equipment	-	33,236	11,321	79,535	648,359	772,451	54,728	16,507	71,235	843,686
Printing, publications, and visual aids	6,534	397,858	230,127	256,637	570,036	1,461,192	81,617	213,247	294,864	1,756,056
Travel, conferences, conventions and meetings	69,827	373,065	118,075	834,480	2,414,022	3,809,469	203,456	133,866	337,322	4,146,791
Awards and grants	2,941,361	126,739	62,078	128,830	6,269,351	9,528,359	37,302	28,820	66,122	9,594,481
Miscellaneous	74,374	213,909	41,586	97,079	912,471	1,339,419	232,011	74,245	306,256	1,645,675
Bad debts	-	1,875	1,777	1,185	37,149	41,986	9,927	3,732	13,659	55,645
	3,614,464	6,416,598	1,820,041	7,515,142	56,707,027	76,073,272	8,010,392	3,813,151	11,823,543	87,896,815
Depreciation and amortization	47,632	58,818	17,510	90,507	916,023	1,130,490	134,340	35,611	169,951	1,300,441
TOTAL EXPENSES	\$ 3,662,096	\$ 6,475,416	\$ 1,837,551	\$ 7,605,649	\$ 57,623,050	\$ 77,203,762	\$ 8,144,732	\$ 3,848,762	\$ 11,993,494	\$ 89,197,256

See accompanying notes and accountants' compilation report.

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007

	Program Services					Supporting Services				Total Expenses
	Research	Public Health Education	Professional Education/ Training	Community Services	Patient Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 264,017	\$ 2,487,762	\$ 789,586	\$ 3,355,388	\$ 24,871,826	\$ 31,768,579	\$ 4,004,204	\$ 1,692,106	\$ 5,696,310	\$ 37,464,889
Employee benefits, payroll taxes, and costs (Note 11)	56,557	481,030	161,986	563,600	4,797,754	6,060,927	812,882	308,303	1,121,185	7,182,112
Temporary personnel	858	9,678	-	54,825	12,110	77,471	14,435	50,442	64,877	142,348
Total salary and benefit expenses	321,432	2,978,470	951,572	3,973,813	29,681,690	37,906,977	4,831,521	2,050,851	6,882,372	44,789,349
Professional fees and contract services	9,638	895,171	211,592	1,125,040	5,981,853	8,223,294	1,241,825	369,689	1,611,514	9,834,808
Supplies and materials	5,576	274,946	52,620	167,179	1,746,630	2,246,951	312,552	253,390	565,942	2,812,893
Telephone	9,240	80,523	20,912	109,085	372,825	592,585	56,376	177,685	234,061	826,646
Postage and shipping	3,109	230,600	36,030	71,335	177,630	518,704	48,670	194,433	243,103	761,807
Occupancy (Note 10)	114,734	370,533	114,612	511,359	2,880,158	3,991,396	542,975	190,534	733,509	4,724,905
Membership	2,107	40,989	8,580	76,302	109,197	237,175	97,129	23,708	120,837	358,012
Rental and maintenance of equipment	-	32,865	18,706	57,558	688,394	797,523	52,460	26,573	79,033	876,556
Printing, publications, and visual aids	12,676	495,832	136,706	246,427	499,416	1,391,057	78,505	192,912	271,417	1,662,474
Travel, conferences, conventions and meetings	40,664	366,717	99,748	894,657	2,211,592	3,613,378	170,682	109,494	280,176	3,893,554
Awards and grants	2,387,453	111,157	86,130	87,167	5,334,657	8,006,564	44,114	36,023	80,137	8,086,701
Miscellaneous	85,941	229,126	47,896	118,253	789,279	1,270,495	249,696	31,666	281,362	1,551,857
Bad debts	6,725	10,369	6,143	14,370	18,491	56,098	5,198	5,889	11,087	67,185
Depreciation and amortization	51,315	69,096	17,108	113,842	781,918	1,033,279	120,627	39,727	160,354	1,193,633
Total other expenses	2,729,178	3,207,924	856,783	3,592,574	21,592,040	31,978,499	3,020,809	1,651,723	4,672,532	36,651,031
TOTAL EXPENSES	\$ 3,050,610	\$ 6,186,394	\$ 1,808,355	\$ 7,566,387	\$ 51,273,730	\$ 69,885,476	\$ 7,852,330	\$ 3,702,574	\$ 11,554,904	\$ 81,440,380

See accompanying notes and accountants' compilation report.

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

**COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 448,655	\$ 8,382,844
Adjustments to reconcile changes in net assets to net cash provided by operations:		
Depreciation and amortization	1,320,990	1,212,018
Loss on disposal of property and equipment	21,400	18,735
Net realized and unrealized loss (gain) on sale of investments	2,224,920	(2,669,357)
Change in value of split interest agreements	95,280	(244,820)
Donated equipment	-	(5,347)
Donated investments	(26,220)	(192,854)
Contributions restricted for long-term investments	(45,530)	(298,310)
Changes in cash due to disaffiliation	498,855	(13,374)
(Increase) decrease in:		
Accounts and grants receivable	(296,487)	(947,617)
Prepaid expenses and other assets	114,492	(152,505)
Inventories	8,676	155,551
Increase (decrease) in:		
Accounts payable and accrued expenses	1,215,127	(73,077)
Grants payable	87,111	(475,258)
Deferred revenue	(1,338,096)	(1,129,905)
Net cash provided by operating activities	<u>4,329,173</u>	<u>3,566,724</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(1,348,446)	(1,743,517)
Proceeds from sales of property and equipment	7,401	3,175
Merger of investments from former affiliate	-	432,373
Purchases of investments	(3,948,837)	(6,600,127)
Proceeds from sales of investments	4,308,685	4,588,190
Net cash used by investing activities	<u>(981,197)</u>	<u>(3,319,906)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contribution of permanently restricted net assets	45,530	298,310
Proceeds from (repayment of) capital leases	919,112	(118,239)
Proceeds from notes payables	383,121	503,866
Repayment of notes payable	(803,583)	(1,611,561)
Net cash provided (used) by financing activities	<u>544,180</u>	<u>(927,624)</u>
Net increase (decrease) in cash and cash equivalents	3,892,156	(680,806)
Cash and cash equivalents, beginning of year	<u>13,390,434</u>	<u>14,071,240</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 17,282,590</u>	<u>\$ 13,390,434</u>

See accompanying notes and accountants' compilation report.

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

1. ORGANIZATION

The Epilepsy Foundation National Office (the "Foundation") is a non-profit organization incorporated under the laws of the State of Delaware. The Foundation was established to promote research into the causes and treatments of epilepsy, to support educational and vocational programs for person with epilepsy, and to provide educational information about epilepsy to the general public. The Foundation is responsible for national programs and the dissemination of information, technical and administrative assistance to its Affiliates.

The Affiliates, which are separately incorporated and granted tax exemption, are responsible for programs and information at the local level. Each Affiliate is required to sign an affiliation agreement with the Foundation.

The Epilepsy Research Foundation (the "Research Foundation") was organized in June 2003 as a Commonwealth of Virginia not-for-profit corporation to be a supporting organization to both the Foundation and The Epilepsy Therapy Development Project to facilitate joint fundraising efforts and develop an innovative research program. The Research Foundation's Board of Directors is composed of four members appointed by the Foundation's Board of Directors and four members appointed by The Epilepsy Therapy Development Project's Board of Directors. The Research Foundation is also considered and affiliate for purposes of these combined financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting -

The Organizations prepare their combined financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when obligations are incurred.

Cash and cash equivalents -

For combined financial statement purposes, the Organizations consider cash and cash equivalents to include cash in banks and liquid investments with an original maturity of three months or less. However, amounts held in the investment portfolios, regardless of maturity, are not considered cash equivalents.

Basis of combination -

These financial statements combine the accounts of the Foundation, the Affiliates and the Research Foundation, collectively referred to as the Organizations, which have varying fiscal periods. All significant inter-company accounts and transactions have been eliminated in combination.

Investments -

Investments are recorded at fair market value.

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates -

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and equipment -

Acquisitions of property and equipment with a cost greater than \$500 are capitalized and depreciated on the straight-line basis over the estimated useful life of the related assets (generally, two to forty years). Leasehold improvements are amortized on a straight-line basis over the remaining life of the lease.

Income tax status -

The Organizations are exempt from the payment of Federal income taxes on their exempt activities under 501(c)(3) of the Internal Revenue Code and have been designated by the Internal Revenue Service as "publicly supported" organizations under Section 509(a) of the Code.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*. FIN 48 interprets the guidance in FASB Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. When FIN 48 is implemented, reporting entities utilize different recognition thresholds and measurement requirements when compared to prior technical literature. On December 30, 2008, the FASB Staff issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. As deferred by the guidance in FSP FIN 48-3, the Organizations are not required to implement the provisions of FIN 48 until fiscal years beginning after December 15, 2008. As such, the Organizations have not implemented those provisions in the 2008 combined financial statements.

Since the provisions of FIN 48 have not been implemented in accounting for uncertain tax positions, the Organizations continue to utilize their prior policy of accounting for these positions, following the guidance in SFAS No. 5, *Accounting for Contingencies*. Disclosure is not required of a loss contingency involving an unasserted claim or assessment when there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable. Using that guidance, as of June 30, 2008 and 2007, the Organizations have no uncertain tax positions that qualify for either recognition or disclosure in the combined financial statements.

Inventory -

Inventory is stated at the lower of cost or market and valued on a weighted average basis. Inventory consists of educational materials on hand at the end of the year.

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** represent net assets available for general operations.
- **Temporarily restricted net assets** include amounts with specific donor imposed purpose and/or time restrictions.
- **Permanently restricted net assets** include amounts received from donors which must be held in-perpetuity.

Split interest agreements -

A split interest agreement is created when a donor contributes assets directly to a non-profit organization or places them in a trust for the benefit of the non-profit organization. A summary of the types of irrevocable split interest agreements which the Foundation has recorded are as follows:

Perpetual Trusts - The Foundation is a beneficiary under several perpetual trusts. While the Foundation cannot spend its interest in the corpus of these perpetual trusts, it does receive annual distributions which can be spent based on the donor's intent. The fair value of the Foundation's interest in the trust assets is recorded as a permanently restricted contribution at the time its interest becomes irrevocable. Subsequent adjustments to the perpetual trust's fair value are recognized as permanently restricted change in the value of split interest agreements.

Pooled Income - The Foundation maintains a pooled income fund. Donors can contribute to the fund and receive the income earned until their death, at which time the assets are available to the Foundation. Donations to the pooled income fund are recorded at their fair value when received, discounted for the estimated time period until the donor's death. The difference between the fair value of the assets when received and the revenue recognized is recorded as deferred revenue, which is then amortized over the life expectancy of the donors. At June 30, 2008 and 2007, the market value of the pooled income fund investments totaled \$283,590 and \$288,567, respectively. Furthermore, the related deferred revenue totaled \$46,843 and \$48,372 as of June 30, 2008 and 2007, respectively.

Charitable Gift Annuities - Donors contribute assets to the Foundation in exchange for distributions of a fixed amount annually for life. A liability is recorded at the present value of future cash flows expected to be paid to the donor. The difference between the fair value of the assets when received and the related liability is recognized as contribution revenue. At June 30, 2008 and 2007, the market value of the charitable gift annuity investments totaled \$222,011 and \$220,233, respectively. Furthermore, the related liability totaled \$114,356 and \$134,968 as of June 30, 2008 and 2007, respectively.

Grants payable -

Unconditional grant obligations are recognized once an award letter has been issued.

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition -

Revenue from program services, sale of materials, special events and government grants is recognized in the year in which it is earned. Amounts received from these sources, but not yet earned, are recorded as deferred revenue. Conversely, amounts earned, but not yet received, are recorded as receivables.

The Organizations record revenue received as unrestricted, temporarily restricted, or permanently restricted revenue depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets become unrestricted when the time restrictions expire or the funds are used for their restricted purpose and are reported in the Combined Statements of Activities and Changes in Net Assets as net assets released from restrictions. However, the Organizations record restricted revenue whose restrictions are satisfied in the same reporting as unrestricted revenue.

Allocation of expenses -

The Organizations' expenses have been summarized on a functional basis in the Combined Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

3. INVESTMENTS

Investments consisted of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Money market accounts	\$ 1,898,665	\$ 2,291,271
Treasury bills	-	26,898
Equity securities	11,618,671	14,791,597
Fixed income securities	9,169,047	8,056,586
Mutual funds	<u>5,131,592</u>	<u>5,198,054</u>
TOTAL INVESTMENTS	<u>\$27,817,975</u>	<u>\$30,364,406</u>

Included in investment (loss) income are the following:

	<u>2008</u>	<u>2007</u>
Dividends and interest	\$ 1,794,190	\$ 1,350,506
Realized (loss) gain	(1,855,196)	2,411,727
Unrealized (loss) gain	<u>(369,724)</u>	<u>257,631</u>
TOTAL INVESTMENT (LOSS) INCOME	<u>\$ (430,730)</u>	<u>\$ 4,019,864</u>

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Buildings	\$10,206,536	\$10,425,098
Furniture and equipment	10,298,860	8,898,342
Equipment under capital lease	67,411	71,192
Leasehold improvements	<u>1,080,612</u>	<u>964,992</u>
	21,653,419	20,359,624
Less: Accumulated depreciation and amortization	<u>(11,232,130)</u>	<u>(9,954,808)</u>
PROPERTY AND EQUIPMENT, NET	<u>\$10,421,289</u>	<u>\$10,404,816</u>

5. CAPITAL LEASE OBLIGATIONS

An Affiliate leases equipment that qualifies for capital lease treatment in accordance with Statement of Financial Accounting Standards No. 13, *Accounting for Leases*. The cost of this capital lease is included in property and equipment and totaled \$67,411 and \$71,192 at June 30, 2008 and 2007, respectively.

Future minimum lease payments for the years ending June 30 are as follows:

<u>Year Ending June 30,</u>	
2009	\$ 277,773
2010	302,521
2011	252,024
2012	270,306
2013	272,314
Thereafter	<u>2,122,258</u>
	3,497,196
Less: Interest portion of payments	<u>(1,155,007)</u>
	<u>\$ 2,342,189</u>

6. NOTES PAYABLE

Certain Affiliates have promissory notes that bear interest ranging from 3% to 11%. Interest expense relating to these promissory notes totaled \$399,566 and \$374,964 for the years ended June 30, 2008 and 2007, respectively. The majority of these promissory notes are secured by real estate or equipment.

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

6. NOTES PAYABLE (Continued)

Future minimum principal payments on these promissory notes for years ending June 30 are as follows:

<u>Year Ending June 30,</u>	
2009	\$ 933,685
2010	413,461
2011	1,080,629
2012	260,156
2013	198,517
Thereafter	<u>1,538,859</u>
	<u>\$ 4,425,307</u>

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Research activities	\$ 12,512,071	\$ 13,397,433
Public health education	248,332	359,635
Professional education and training	17,871	20,318
Community services	401,762	1,075,025
Patient services	1,982,874	2,309,455
Pooled income fund	265,408	270,417
Due from United Way	399,983	384,179
Donated facilities	85,016	103,496
Sheboygan area programs	180,125	25,322
Time restriction	<u>24,571</u>	<u>68,265</u>
	<u>\$ 16,118,013</u>	<u>\$ 18,013,545</u>

8. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses or by the passage of time which satisfied the restricted purposes specified by the donors:

	<u>2008</u>	<u>2007</u>
Research activities	\$ 3,230,493	\$ 2,769,810
Public health education	291,880	575,898
Professional education and training	8,301	67,873
Community services	1,717,162	1,377,988
Patient services	1,925,637	1,283,067
Due from United Way	354,886	352,949
Donated facilities	56,778	-
Sheboygan area programs	168,897	136,344
Time restriction	<u>25,322</u>	<u>55,079</u>
	<u>\$ 7,779,356</u>	<u>\$ 6,619,008</u>

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

9. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to investment in-perpetuity, the income from which is expendable to support the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Research	\$ 1,998,594	\$ 2,008,636
National Epilepsy Library	20,000	20,000
Reinvestment in Endowment	84,052	78,848
General	5,460,869	5,625,957
Patient services	474,490	193,779
Campership Fund	-	258,236
	<u>\$ 8,038,005</u>	<u>\$ 8,185,456</u>

10. OFFICE LEASES

The Foundation and certain Affiliates lease office space under operation leases with remaining noncancelable terms in excess of one-year. Occupancy expense for the years ended June 30, 2008 and 2007 totaled \$5,424,110 and \$4,724,905, respectively.

Minimum annual rental payments under these office leases are as follows:

<u>Year Ending June 30,</u>	
2009	\$ 1,688,347
2010	3,089,243
2011	2,793,699
2012	2,390,856
2013	2,214,325
Thereafter	<u>5,083,689</u>
	<u>\$17,260,159</u>

11. RETIREMENT PLANS

The Foundation has a 401(k) Thrift Plan (the Plan) under which the Foundation contributes six percent of each qualified employee's salary, plus up to a two percent matching contribution. Under the terms of the Plan, all employees who meet minimum service and age requirements are eligible to participate. The Foundation's contributions to the Plan for the fiscal years ended June 30, 2008 and 2007 totaled \$320,012 and \$341,196, respectively.

Certain Affiliates have defined contribution pension plans, simplified employee pension plans, or tax-deferred annuity retirement plans. The Affiliates' contributions to these plans for the fiscal years ended June 30, 2008 and 2007 totaled \$997,780 and \$1,239,695, respectively.

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

12. ALLOCATION OF JOINT COSTS

For the years ended June 30, 2008 and 2007, the Organizations incurred joint costs of \$653,132 and \$746,607, respectively, related to educational information included in fundraising appeals. Of those costs, \$302,116 and \$426,708 was allocated to fundraising expenses and \$351,016 and \$319,899 was allocated to public health education for the years ended June 30, 2008 and 2007, respectively.

13. CHANGES IN AFFILIATION

Typically, changes in the composition of the Affiliates included in these combined financial statements occur for one of the following reasons:

- New organization is affiliated with the Foundation,
- Organization ceases to be affiliated with the Foundation, or
- Organization fails to comply with the affiliation agreement, including financial reporting requirements. Such organizations are included in the combined financial statements of subsequent years if compliance with the financial reporting requirements is met.

For Affiliates that have net assets as of the beginning of the year of change in affiliation, such changes are accounted for in the combined financial statements as though they had taken place as of the beginning of such year.