

Citizens United for Research in Epilepsy

Audited Financial Statements

*Years ended December 31, 2016 and 2015  
with Report of Independent Auditors*

Citizens United for Research in Epilepsy

Audited Financial Statements

Years ended December 31, 2016 and 2015

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Report of Independent Auditors

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

We have audited the accompanying financial statements of Citizens United for Research in Epilepsy (CURE) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citizens United for Research in Epilepsy as of December 31, 2016 and 2015, 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.

***Emphasis of Matter - Restatement***

As discussed in Note C to the financial statements, CURE restated its financial statements as of and for the year ended December 31, 2015 to correct an error relating to grants payable. Our opinion has not been modified with respect to this matter.

*Johnson Lambert LLP*

Arlington Heights, Illinois  
November 13, 2017

Citizens United for Research in Epilepsy

Statements of Financial Position  
December 31,

	2016		2015		
	Unrestricted	Temporarily Restricted	Total	Temporarily Restricted	Total
<b>Assets</b>					
Cash and cash equivalents	\$ 1,270,694	\$ -	\$ 1,270,694	\$ 729,980	\$ 729,980
Investments	4,578,932	687,368	5,266,300	5,946,046	6,766,153
Contributions and grants receivable	146,766	1,200,000	1,346,766	180,690	1,290,690
Prepaid expenses and other assets	113,415	-	113,415	71,642	71,642
Fixed assets, less accumulated depreciation of \$45,775 in 2016 and \$26,627 in 2015	109,990	-	109,990	127,693	127,693
<b>Total Assets</b>	<b>\$ 6,219,797</b>	<b>\$ 1,887,368</b>	<b>\$ 8,107,165</b>	<b>\$ 7,056,051</b>	<b>\$ 8,986,158</b>
<b>Liabilities and Net Assets</b>					
Liabilities					
Accounts payable and accrued expenses	\$ 122,173	\$ -	\$ 122,173	\$ 68,302	\$ 68,302
Grants payable	3,297,789	-	3,297,789	3,409,735	3,409,735
Deferred revenue	565,033	-	565,033	-	-
Total Liabilities	3,984,995	-	3,984,995	3,478,037	3,478,037
Net Assets	2,234,802	1,887,368	4,122,170	3,578,014	5,508,121
<b>Total Liabilities and Net Assets</b>	<b>\$ 6,219,797</b>	<b>\$ 1,887,368</b>	<b>\$ 8,107,165</b>	<b>\$ 7,056,051</b>	<b>\$ 8,986,158</b>

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,

	2016			2015		
	Unrestricted	Temporarily Restricted		Unrestricted	Temporarily Restricted	
		Total	As Restated		As Restated	As Restated
<b>Support and revenue</b>						
Contributions						
Foundations	\$ 133,631	\$ -	\$ 133,631	\$ 70,131	\$ 500,000	\$ 570,131
Corporate	285,997	100,000	385,997	65,315	100,000	165,315
Individuals	775,000	850,000	1,625,000	642,218	1,500,000	2,142,218
Other	66,445	-	66,445	18,847	-	18,847
In-kind	-	-	-	11,655	-	11,655
Special events						
Proceeds	2,280,312	-	2,280,312	2,969,514	-	2,969,514
Expenses	(603,375)	-	(603,375)	(569,251)	-	(569,251)
Net special events	1,676,937	-	1,676,937	2,400,263	-	2,400,263
Federal grant revenue	229,614	-	229,614	67,290	-	67,290
Interest and dividends	157,025	-	157,025	182,661	-	182,661
Net assets released from restriction	992,739	(992,739)	-	939,893	(939,893)	-
Total support and revenue	<u>4,317,388</u>	<u>(42,739)</u>	<u>4,274,649</u>	<u>4,398,273</u>	<u>1,160,107</u>	<u>5,558,380</u>
<b>Expenses</b>						
Program services	5,112,647	-	5,112,647	5,964,385	-	5,964,385
General administration	427,936	-	427,936	331,538	-	331,538
Fundraising	323,078	-	323,078	296,099	-	296,099
Total expenses	<u>5,863,661</u>	<u>-</u>	<u>5,863,661</u>	<u>6,592,022</u>	<u>-</u>	<u>6,592,022</u>
Change in net assets before change in fair value of investments	(1,546,273)	(42,739)	(1,589,012)	(2,193,749)	1,160,107	(1,033,642)
Change in fair value of investments	<u>203,061</u>	<u>-</u>	<u>203,061</u>	<u>(473,302)</u>	<u>-</u>	<u>(473,302)</u>
Total change in net assets	(1,343,212)	(42,739)	(1,385,951)	(2,667,051)	1,160,107	(1,506,944)
Net assets, beginning of year	<u>3,578,014</u>	<u>1,930,107</u>	<u>5,508,121</u>	<u>6,245,065</u>	<u>770,000</u>	<u>7,015,065</u>
Net assets, end of year	<u>\$ 2,234,802</u>	<u>\$ 1,887,368</u>	<u>\$ 4,122,170</u>	<u>\$ 3,578,014</u>	<u>\$ 1,930,107</u>	<u>\$ 5,508,121</u>

See accompanying notes to the financial statements.

Citizens United for Research in Epilepsy

Statement of Functional Expenses  
Year ended December 31, 2016

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

See accompanying notes to the financial statements.

Citizens United for Research in Epilepsy

Statement of Functional Expenses  
Year ended December 31, 2015 (As Restated)

	Program Services				General		
	Research	Awareness	Other programs	Total	Administration	Fundraising	Total
Grants	\$ 4,341,578	\$ -	\$ -	\$ 4,341,578	\$ -	\$ -	\$ 4,341,578
Salaries and wages	485,373	308,874	-	794,247	154,437	154,437	1,103,121
Payroll taxes	29,565	18,814	-	48,379	9,407	9,407	67,193
Employee benefits	60,468	38,480	-	98,948	19,239	19,239	137,426
Contractual services	113,019	71,921	-	184,940	35,961	35,961	256,862
Legal, audit and accounting	5,891	3,749	-	9,640	1,875	1,875	13,390
Insurance	4,376	2,784	-	7,160	1,392	1,392	9,944
Printing and publications	10,326	33,375	-	43,701	3,286	3,286	50,273
Postage	3,589	2,284	-	5,873	1,142	1,142	8,157
Occupancy	33,572	21,364	-	54,936	10,682	10,682	76,300
Telephone	6,279	3,996	-	10,275	1,998	1,998	14,271
Computer and internet	30,426	19,362	-	49,788	9,681	9,681	69,150
Supplies	4,286	2,727	-	7,013	1,364	1,364	9,741
Travel, meetings and related	1,374	874	41,448	43,696	22,703	437	66,836
Conferences	28,847	-	113,511	142,358	13,581	-	155,939
Awareness publicity	-	29,575	-	29,575	-	-	29,575
Advocacy Program	-	24,500	-	24,500	-	-	24,500
Awards	-	-	-	-	-	-	1,697
Bank charges	-	-	-	-	35,728	33,215	68,943
Fees and service payments	-	6,818	-	6,818	-	6,818	13,636
Web design and maintenance	-	34,400	-	34,400	-	-	34,400
Dues and subscriptions	8,676	5,521	-	14,197	2,761	2,761	19,719
Depreciation	5,618	3,575	-	9,193	1,788	1,788	12,769
Utilities	1,937	1,233	-	3,170	2,816	616	6,602
Total expenses	\$ 5,175,200	\$ 634,226	\$ 154,959	\$ 5,964,385	\$ 331,538	\$ 296,099	\$ 6,592,022

See accompanying notes to the financial statements.



# Citizens United for Research in Epilepsy

## Statements of Cash Flows

	Years ended December 31,	
	2016	2015
	<b>As Restated</b>	
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (1,385,951)	\$ (1,506,944)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	19,149	12,768
Realized loss on sale of investments	48,827	-
Change in fair value of investments	(251,888)	473,302
Donated securities	-	(54,180)
Changes in operating assets and liabilities		
Grants and accounts receivable	(56,076)	(792,604)
Prepaid expenses and other assets	(41,773)	(12,376)
Accounts payable and accrued expenses	53,871	(64,549)
Grants payable	(111,946)	589,787
Deferred revenue	565,033	-
Net cash used in operating activities	(1,160,754)	(1,354,796)
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	(1,446)	(95,123)
Proceeds from sale of investments	2,083,446	41,862
Purchases of investments	(380,532)	(215,782)
Net cash provided by (used in) investing activities	1,701,468	(269,043)
Change in cash and cash equivalents	540,714	(1,623,839)
Cash and cash equivalents, beginning of year	729,980	2,353,819
Cash and cash equivalents, end of year	\$ 1,270,694	\$ 729,980

See accompanying notes to the financial statements.

# Citizens United for Research in Epilepsy

## Notes to the Financial Statements

Years ended December 31, 2016 and 2015

### **Note A - Nature of Activities**

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

### **Note B - Summary of Significant Accounting Policies**

#### *Basis of Presentation*

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

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

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

Permanently restricted net assets- Net assets subject to donor-imposed stipulations that they be maintained permanently by CURE. There are no permanently restricted net assets as of December 31, 2016 and 2015.

#### *Subsequent Events*

CURE has performed an evaluation of subsequent events through November 13, 2017, 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, 2016 and 2015, \$50,000 and \$0 have been recorded as bad debt expense.

##### *Federal Grant Revenue*

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

##### *Special Events*

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

## Citizens United for Research in Epilepsy

### Notes to the Financial Statements (Continued)

#### **Note B - Summary of Significant Accounting Policies (Continued)**

##### *Fixed Assets*

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

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

##### *Investments and Fair Value Measurement*

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

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

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

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

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

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

## Citizens United for Research in Epilepsy

### Notes to the Financial Statements (Continued)

#### **Note B - Summary of Significant Accounting Policies (Continued)**

##### *Grants Payable*

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

##### *Donated Services and Materials*

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

##### *Functional Allocation of Expenses*

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

#### **Note C - Restatement**

CURE has restated its 2015 financial statements in order to correct an error in the recognition of grants payable. The effects of the correction on the statement of financial position, statement of activities, and statement of functional expenses as of and for the year ended December 31, 2015 is as follows:

Financial statement line	As previously reported	Correction	As restated
Grants payable	\$ 3,659,735	\$ (250,000)	\$ 3,409,735
Total unrestricted net assets	\$ 3,328,014	\$ 250,000	\$ 3,578,014
Grant expense	\$ 4,591,578	\$ (250,000)	\$ 4,341,578
Program services expense	\$ 6,214,385	\$ (250,000)	\$ 5,964,385

#### **Note D - Investments and Fair Value Measurement**

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

	2016	2015
Mutual funds	\$ 4,524,506	\$ 4,109,508
U.S. equities	210,207	168,553
Money market funds	531,587	2,488,092
Total investments	<u>\$ 5,266,300</u>	<u>\$ 6,766,153</u>

## Citizens United for Research in Epilepsy

### Notes to the Financial Statements (Continued)

#### **Note D - Investments and Fair Value Measurement (Continued)**

At December 31, 2016 and 2015, CURE's investments in mutual funds and equity securities are measured at fair value based on quoted market prices for identical assets in actively traded markets (Level 1). Money market funds do not meet the definition of securities under accounting standards and accordingly are not subject to the fair value measurement disclosure.

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

	2016	2015	
Interest and dividends	\$ 157,025	\$ 182,661	
Realized losses	(48,827)	-	
Change in fair value of investments	251,888	(473,302)	
	\$ 360,086	\$ (290,641)	

#### **Note E - Contributions and Grants Receivable**

Receivables at December 31 consist of the following:

	2016	2015	
Receivable due within one year	\$ 820,099	\$ 990,690	
Receivable due in one to five years	526,667	300,000	
Contributions and grants receivable	\$ 1,346,766	\$ 1,290,690	

#### **Note F - Temporarily Restricted Net Assets**

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

	2016	2015	
Future operations	\$ 1,087,368	\$ 410,000	
Purpose restriction	800,000	1,520,107	
Total temporarily restricted net assets	\$ 1,887,368	\$ 1,930,107	

Net assets are released from donor restriction by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors. Amounts released from restriction at December 31, 2016 and 2015 satisfied the related time restrictions.

#### **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, 2016 and 2015 was \$17,020 and \$16,453, respectively.

## Citizens United for Research in Epilepsy

### Notes to the Financial Statements (Continued)

#### Note H - Commitments

CURE leases its office space in Chicago, Illinois under an operating lease agreement that expires on November 30, 2018. CURE recorded rent expense of \$75,966 and \$76,300 for the years ended December 31, 2016 and 2015, respectively. The future minimum lease payments are as follows:

<u>Fiscal Years Ending December 31,</u>	<u>Minimum Lease Payments</u>
2017	\$ 73,280
2018	69,048
	<u>\$ 142,328</u>

#### Note I - Related Party Transactions

CURE received \$654,786 and \$1,241,305 in 2016 and 2015, respectively from CURE's Board of Directors additionally, the statements of financial position include \$250,000 and \$310,000 in outstanding receivables as of December 31, 2016 and 2015, respectively from member's 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.

As of December 31, 2016 and 2015, CURE has federal grant expenditures of \$229,614 and \$67,290 and therefore, is not subject to audit under the provisions of OMB Uniform Guidance for the year ended.