

**EPILEPSY FOUNDATION CENTRAL
& SOUTH TEXAS**

FINANCIAL STATEMENTS

August 31, 2018 and 2017

EPILEPSY FOUNDATION CENTRAL & SOUTH TEXAS
FINANCIAL STATEMENTS
August 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Epilepsy Foundation Central & South Texas
San Antonio, Texas

We have audited the accompanying financial statements of Epilepsy Foundation Central & South Texas (EFCST), a non-profit organization, which comprise the statements of financial position as of August 31, 2018 and 2017, and the related statements of activities (with comparative totals for 2017), functional expenses (with comparative totals for 2017), 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.

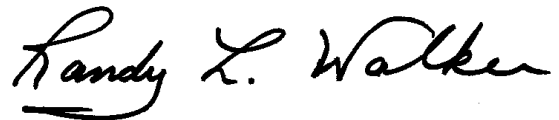
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EFCST as of August 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2019 on pages 12-13 on our consideration of EFCST'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 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 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 EFCST's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Randy L. Walker". The signature is written in a cursive style with a prominent underline under the first letter of the first name.

San Antonio, Texas
January 16, 2019

FINANCIAL STATEMENTS

EPILEPSY FOUNDATION CENTRAL & SOUTH TEXAS
STATEMENTS OF FINANCIAL POSITION
August 31, 2018 and 2017

	2018	2017
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 258,200	\$ 281,374
Accounts Receivable	106,810	69,188
Prepaid Expenses	4,212	4,150
Other Assets	371	-
Total Current Assets	369,593	354,712
<u>LONG-TERM ASSETS</u>		
Furniture and Equipment, net	9,122	13,500
Total Long-Term Assets	9,122	13,500
TOTAL ASSETS	\$ 378,715	\$ 368,212
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 16,575	\$ 18,129
Accrued Expenses	29,701	49,668
Deferred Revenue	22,111	2,625
Total Current Liabilities	68,387	70,422
TOTAL LIABILITIES	68,387	70,422
<u>NET ASSETS</u>		
Without Donor Restrictions	170,185	189,433
With Donor Restrictions	140,143	108,357
TOTAL NET ASSETS	310,328	297,790
TOTAL LIABILITIES AND NET ASSETS	\$ 378,715	\$ 368,212

The accompanying notes are an integral part of these financial statements.

EPILEPSY FOUNDATION CENTRAL & SOUTH TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2018
(with comparative totals for 2017)

	2018			2017 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<u>OPERATING SUPPORT AND REVENUE</u>				
State Grant Revenue	\$ -	\$ 576,137	\$ 576,137	\$ 576,082
Program and Other Grant Revenue	-	222,344	222,344	193,492
Fundraising Revenue, net of direct expenses of \$49,196 and \$67,565, respectively	172,532	-	172,532	155,745
Contributions	71,681	-	71,681	54,288
In-Kind Revenue	39,378	-	39,378	-
Interest Income	1,147	-	1,147	257
Reimbursable Revenue	5	-	5	-
Net Assets Released from Restrictions	766,695	(766,695)	-	-
TOTAL OPERATING SUPPORT AND REVENUE	1,051,438	31,786	1,083,224	979,864
<u>OPERATING EXPENSES</u>				
Program	946,543	-	946,543	884,743
General and Administrative	89,079	-	89,079	91,430
Fundraising	35,064	-	35,064	27,159
TOTAL OPERATING EXPENSES	1,070,686	-	1,070,686	1,003,332
CHANGE IN NET ASSETS	(19,248)	31,786	12,538	(23,468)
NET ASSETS - BEGINNING OF YEAR	189,433	108,357	297,790	321,258
NET ASSETS - END OF YEAR	\$ 170,185	\$ 140,143	\$ 310,328	\$ 297,790

The accompanying notes are an integral part of these financial statements.

EPILEPSY FOUNDATION CENTRAL & SOUTH TEXAS
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended August 31, 2018
(with comparative totals for 2017)

	2018				2017 Total
	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	
<u>OPERATING EXPENSES</u>					
Salary Expense	\$ 528,155	\$ 62,102	\$ 31,066	\$ 621,323	\$ 578,676
Payroll Taxes and Benefits	67,968	7,996	3,998	79,962	114,073
Total Payroll Expenses	596,123	70,098	35,064	701,285	692,749
Education and Patient Services	131,601	-	-	131,601	86,692
Contractual Expense	57,852	584	-	58,436	66,743
Office Rent	53,547	1,656	-	55,203	54,508
Dues and Fees	18,424	9,921	-	28,345	26,204
Professional Fees	17,598	3,105	-	20,703	8,543
Supplies	17,549	731	-	18,280	9,229
Travel	11,166	286	-	11,452	10,786
Telephone	9,298	489	-	9,787	8,389
Equipment Lease Expense	7,121	375	-	7,496	9,147
Miscellaneous Expense	6,289	584	-	6,873	11,123
Printing and Postage	6,364	64	-	6,428	8,527
Utilities	4,674	578	-	5,252	2,739
Depreciation	4,378	-	-	4,378	4,847
Insurance	3,973	345	-	4,318	2,348
Satellite Office	263	263	-	526	173
Meeting Expense	258	-	-	258	69
Repair and Maintenance	65	-	-	65	516
TOTAL OPERATING EXPENSES	\$ 946,543	\$ 89,079	\$ 35,064	\$ 1,070,686	\$ 1,003,332

The accompanying notes are an integral part of these financial statements.

EPILEPSY FOUNDATION CENTRAL & SOUTH TEXAS
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2018 and 2017

	2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in Net Assets from Operating Activities	\$ 12,538	\$ (23,468)
Adjustments to Reconcile Net Change to Net Cash (Used)		
Provided by Operations:		
Depreciation	4,378	4,847
(Increase) Decrease in Assets:		
Accounts Receivable	(37,622)	125,197
Prepaid Expenses	(62)	(1,712)
Other Assets	(371)	2,622
(Decrease) Increase in Liabilities:		
Accounts Payable	(1,554)	(13,996)
Accrued Expenses	(19,967)	31,058
Deferred Revenue	19,486	(36,989)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(23,174)	87,559
NET (DECREASE) INCREASE IN CASH FLOWS	(23,174)	87,559
CASH - BEGINNING OF YEAR	281,374	193,815
CASH - END OF YEAR	\$ 258,200	\$ 281,374

The accompanying notes are an integral part of these financial statements.

EPILEPSY FOUNDATION CENTRAL & SOUTH TEXAS
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting following current accounting practices for non-profit organizations. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Organization and Nature of Activities

Epilepsy Foundation Central & South Texas (EFCST) is a non-profit organization founded in 1993 that covers 79 Texas counties and is an affiliate of the Epilepsy Foundation of America. EFCST leads the fight to stop seizures, find a cure and overcome the challenges created by epilepsy. EFCST's programs and services include indigent seizure clinics; social case management; information and referral; outreach and support services; individual, community, and professional education; employment preparation services; and summer youth opportunities.

Basis of Presentation

EFCST is required to report information regarding its financial position and activities according to two classes of net assets:

- Net Assets Without Donor Restrictions - Net assets available for use in the general operations and not subject to donor restrictions. Assets restricted solely through the actions of the Board of Directors are reported as net assets without donor restrictions, designated.
- Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions that are more restrictive than EFCST's mission and purpose. 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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Furniture and Equipment

Purchased furniture and equipment are stated at cost. Donated assets are recorded at estimated market value at the date of donation. Depreciation for furniture and equipment is computed using the straight-line method over the estimated useful lives of five to seven years.

Income Taxes

Epilepsy Foundation Central & South Texas is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. EFCST has been classified as an organization that is not a private foundation under 509(a)(1) of the Internal Revenue Code and qualifies for the maximum charitable contribution deduction for individual donors. As of August 31, 2018, the tax years that remain subject to examination by taxing authorities begin with 2015.

EPILEPSY FOUNDATION CENTRAL & SOUTH TEXAS
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Support and Revenue

All contributions are considered available for unrestricted use, unless specifically restricted by the donor or by the activity for which the contribution was solicited, and are recorded when pledged.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding revenue recognition effective for reporting periods beginning after December 15, 2018. Management does not expect the new standard to have a significant impact on its financial position, results of operations and related disclosures.

In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2019. A lessee will be required to recognize on the statement of assets, liabilities, and net assets the assets and liabilities for leases with lease terms of more than twelve months. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued Accounting Standard Update 2016-14, regarding the reporting and disclosure requirements for not-for-profit organizations, effective for periods beginning after December 15, 2017 with early adoption encouraged. The pronouncement replaces the three classes of net assets with two new classes, requires the reporting of expense by function and natural classification, enhances disclosures on liquidity and availability of resources, and includes several other less significant reporting enhancements. EFCST has early adopted this new pronouncement effective September 1, 2017, and the prior year presentation is conformed.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications are due to the adoption of Accounting Standards Update 2016-14, as discussed above, which requires two classifications of net assets from the previously reported three classes. Net assets, previously classified at August 31, 2017 as “unrestricted” are now classified as “without donor restrictions”. Net assets previously classified as “temporarily restricted” are now classified as “with donor restrictions”. These reclassifications had no effect on the previously reported change in net assets.

NOTE 2 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and general and administrative expenses have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include payroll expenses, which are allocated on the basis of estimates of time and effort, as well as depreciation, insurance, repair and maintenance, and utilities, which are allocated on square footage or some other reasonable basis.

EPILEPSY FOUNDATION CENTRAL & SOUTH TEXAS
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 3 - FURNITURE AND EQUIPMENT

Furniture and equipment consisted of the following at August 31:

	<u>2018</u>	<u>2017</u>
Furniture and Fixtures	\$ 7,431	\$ 7,431
Equipment	53,135	53,135
Less Accumulated Depreciation	(51,444)	(47,066)
Total	<u>\$ 9,122</u>	<u>\$ 13,500</u>

Depreciation expense for the years ended August 31, 2018 and 2017 was \$4,378 and \$4,847, respectively.

NOTE 4 - CONCENTRATION OF REVENUE

Fee-for-service grants from the Texas Department of Health and Human Services provided approximately 51% and 55% of EFCST's revenue for the years ended August 31, 2018 and 2017, respectively. Additionally, approximately 20% and 18% of EFCST's revenue was provided by grants and programs for the years ended August 31, 2018 and 2017, respectively.

NOTE 5 - CONCENTRATION OF CREDIT RISK

EFCST maintains its cash balances in two deposit accounts with Frost Bank. The Federal Deposit Insurance Corporation insures all cash accounts up to \$250,000. At August 31, 2018 and 2017, EFCST's uninsured cash balances totaled \$12,538 and \$33,316, respectively, without consideration of reconciling items.

NOTE 6 - ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts due primarily from the Texas Department of Health and Human Services for fee-for-service grants and contributions from individuals and corporations. EFCST considers accounts receivable to be fully collectible. Therefore, no allowance for doubtful accounts is deemed necessary by management. Accounts receivable was \$106,810 and \$69,188 as of August 31, 2018 and 2017, respectively.

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes at August 31:

	<u>2018</u>	<u>2017</u>
Camp Brainstorm	\$ 96,524	\$ 72,614
EFA Grant	22,299	11,201
Studio E	15,245	16,168
Mindset Grant	3,557	3,557
African American Grant	2,500	2,500
Helmet Program	-	2,317
Una Rx Card	18	-
Total	<u>\$ 140,143</u>	<u>\$ 108,357</u>

EPILEPSY FOUNDATION CENTRAL & SOUTH TEXAS
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 8 - SUBSEQUENT EVENTS

EFCST has evaluated subsequent events through January 16, 2019, which is the date the financial statements were available to be issued.

NOTE 9 - OPERATING LEASES

EFCST leases office equipment under a non-cancelable operating lease expiring in May 2022. Total lease payments for office equipment were \$7,496 and \$9,147 for the years ended August 31, 2018 and 2017, respectively.

The total future required minimum payments for the office equipment lease are as follows:

<u>Year Ending August 31,</u>	
2019	\$ 8,220
2020	8,220
2021	8,220
2022	<u>5,480</u>
Total	<u>\$ 30,140</u>

EFCST also leases office space under non-cancelable operating leases for each of its two locations expiring in September 2018. The San Antonio lease was renewed with an expiration date of October 2023 at a monthly rate of \$7,250. The Austin lease was renewed with an expiration date of September 2019 at a monthly rate of \$349. Total rent payments for office space were \$55,203 and \$54,508 for the years ended August 31, 2018 and 2017, respectively.

The total future required minimum payments for the office rental lease are as follows:

<u>Year Ending August 31,</u>	
2019	\$ 83,671
2020	87,352
2021	88,729
2022	89,075
2023	89,075
Thereafter	<u>14,846</u>
Total	<u>\$ 452,748</u>

NOTE 10 - FAIR VALUE OF FINANCIAL INSTRUMENTS

EFCST adopted the provisions of ASC 820, "Fair Value Measurements and Disclosures" (formerly SFAS 157). ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market, and establishes a framework for measuring fair value in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The adoption of ASC 820 did not affect EFCST's financial position or results of operations.

EPILEPSY FOUNDATION CENTRAL & SOUTH TEXAS
NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

NOTE 10 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The valuation techniques required by ASC 820 are based upon observable and unobservable inputs, and ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities and have the highest priority.
- Level 2 valuations are based on quoted prices in markets that are not active.
- Level 3 valuations are based on inputs that are unobservable and supported by little or no market activity.

EFCST does not have Level 2 or Level 3 assets or liabilities.

EFCST's financial instruments (Level 1) were as follows at August 31:

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash	\$ 258,200	\$ 258,200	\$ 281,374	\$ 281,374
Accounts Receivable	\$ 106,810	\$ 106,810	\$ 69,188	\$ 69,188
Prepaid Expenses	\$ 4,212	\$ 4,212	\$ 4,150	\$ 4,150
Other Assets	\$ 371	\$ 371	\$ -	\$ -
Financial Liabilities:				
Accounts Payable	\$ 16,575	\$ 16,575	\$ 18,129	\$ 18,129
Accrued Expenses	\$ 29,701	\$ 29,701	\$ 49,668	\$ 49,668
Deferred Revenue	\$ 22,111	\$ 22,111	\$ 2,625	\$ 2,625

The carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.

NOTE 11 - IN-KIND CONTRIBUTIONS

EFCST receives in-kind contributions in the form of counseling and physician services from regional medical professionals. For the year ended August 31, 2018, in-kind contributions were valued at \$39,378. EFCST did not previously track in-kind contributions.

NOTE 12 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

EFCST has approximately \$179,000 of financial assets available within one year of the date of the statement of financial position to meet cash needs for general expenditure. This consists of cash of \$258,200 and accounts receivable of \$106,810, net of accounts payable of \$16,575, accrued expenses of \$29,701, and funds with donor restrictions of \$140,143 at year-end. EFCST has been operating with financial assets on hand to meet 60 days of normal operating expenses which are, on average, approximately \$89,000 per month given full programmatic expenditures.

OTHER REPORTING REQUIRED

INDEPENDENT AUDITOR’S 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*

Board of Directors
Epilepsy Foundation Central & South Texas
San Antonio, Texas

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 Epilepsy Foundation Central & South Texas (EFCST), a nonprofit organization, which comprise the statement of financial position as of August 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and have issued our report thereon dated January 16, 2019.

Internal Control Over Financial Reporting

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

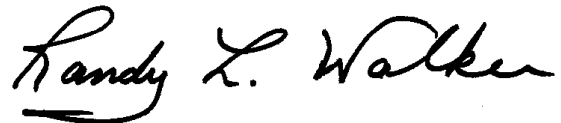
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether EFCST's financial statements are free from 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 the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EFCST's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Randy L. Walker". The signature is written in a cursive style with a prominent flourish at the end of the name.

San Antonio, Texas
January 16, 2019