

The Epilepsy Foundation of Kentuckiana, Inc.

Financial Statements

Years Ended June 30, 2016 and 2015

Smith Financial Services, PLLC
David L. Smith, CPA

Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5-6
Statements of Cash Flows	7
Notes to Financial Statements	8-15

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Independent Auditor's Report

To the Board of Directors
The Epilepsy Foundation of Kentuckiana, Inc.
Louisville, Kentucky

We have audited the accompanying financial statements of The Epilepsy Foundation of Kentuckiana, Inc. (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, statements of functional expenses, and statements of 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.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

(continued)

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 The Epilepsy Foundation of Kentuckiana, Inc. as of June 30, 2016 and 2015 and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Smith Financial Services, PLLC

Louisville, Kentucky
November 30, 2016

The Epilepsy Foundation of Kentuckiana, Inc.
Statements of Financial Position
June 30, 2016 and 2015

Assets

	2016	2015
Current Assets		
Cash	\$ 140,574	\$ 177,673
Unconditional promises to give:		
Pledges receivable	36,005	20,850
Contributions receivable	33,500	20,000
Grants receivable	25,000	-
Prepaid expenses	1,227	5,633
Total current assets	236,306	224,156
Contributions receivable--long term	21,000	12,500
Property and Equipment		
Office equipment	23,242	17,952
Furniture and fixtures	4,050	4,050
	27,292	22,002
Less accumulated depreciation	21,721	20,162
	5,571	1,840
Total assets	\$ 262,877	\$ 238,496

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 18,778	\$ 15,542
Accrued and withheld payroll taxes	5,739	4,909
Accrued vacation	13,242	8,587
Deferred revenue	16,250	19,500
Total current liabilities	54,009	48,538
Total liabilities	54,009	48,538
Net Assets		
Unrestricted	111,468	132,202
Temporarily restricted	97,400	57,756
Total net assets	208,868	189,958
Total liabilities and net assets	\$ 262,877	\$ 238,496

See Notes to Financial Statements

The Epilepsy Foundation of Kentuckiana, Inc.
Statement of Functional Expenses
Year Ended June 30, 2016

	Public education	Professional education	Program Community Services	Client assistance	Total	Management and general	Fund-raising	Total
Wages and salaries	\$ 60,741	\$ 66,478	\$ 29,576	\$ 47,843	\$ 206,638	\$ 23,000	\$ 23,191	\$ 252,829
Program expenses	36,350	40,981	17,706	28,632	123,669	-	-	123,669
Payroll taxes	4,812	5,425	2,344	3,794	16,375	1,823	1,837	20,035
Rent	3,597	4,056	1,752	2,835	12,240	1,363	1,373	14,976
Lobbying	3,674	4,142	1,790	2,894	12,500	-	-	12,500
Office expense and supplies	2,383	2,686	1,161	1,877	8,107	903	910	9,920
Printing	2,292	2,584	1,116	1,807	7,799	868	875	9,542
Telephone	1,921	2,165	936	1,513	6,535	728	733	7,996
Advertising and promotion	1,338	1,508	652	1,054	4,552	507	511	5,570
Insurance	1,107	1,248	539	873	3,767	420	423	4,610
Professional fees	961	1,083	468	757	3,269	364	367	4,000
Client expenses	817	921	398	642	2,778	-	-	2,778
Travel and auto	647	729	315	509	2,200	245	247	2,692
Retirement plan contributions	463	522	225	365	1,575	175	177	1,927
Depreciation	374	422	182	296	1,274	142	143	1,559
Postage and shipping	332	374	162	261	1,129	127	127	1,382
Dues, subscriptions & education	314	354	153	249	1,070	119	120	1,309
Miscellaneous	312	352	152	247	1,063	118	119	1,300
Repairs and maintenance	288	325	140	228	981	109	110	1,200
	<u>122,723</u>	<u>138,355</u>	<u>59,767</u>	<u>96,676</u>	<u>417,521</u>	<u>31,010</u>	<u>31,263</u>	<u>479,794</u>
Fund-raising events direct expenses							<u>92,449</u>	<u>92,449</u>
	<u>\$ 122,723</u>	<u>\$ 138,355</u>	<u>\$ 59,767</u>	<u>\$ 96,676</u>	<u>\$ 417,521</u>	<u>\$ 31,010</u>	<u>\$ 123,712</u>	<u>\$ 572,243</u>
Percentage of total expenses					<u>72.96%</u>	<u>5.42%</u>	<u>21.62%</u>	<u>100.00%</u>

See Notes to Financial Statements

The Epilepsy Foundation of Kentuckiana, Inc.
Statement of Functional Expenses
Year Ended June 30, 2015

	Public education	Professional education	Program Community Services	Client assistance	Total	Management and general	Fund-raising	Total
Wages and salaries	\$ 79,718	\$ 41,184	\$ 32,234	\$ 44,560	\$ 197,696	\$ 20,914	\$ 47,668	\$ 266,278
Program expenses	37,384	19,313	15,116	20,896	92,709	-	-	92,709
Payroll taxes	6,639	3,430	2,685	3,710	16,464	1,741	3,969	22,174
Rent	4,484	2,317	1,813	2,505	11,119	1,176	2,681	14,976
Lobbying	5,040	2,604	2,038	2,818	12,500	-	-	12,500
Printing	3,589	1,854	1,452	2,005	8,900	941	2,145	11,986
Office expense and supplies	2,879	1,488	1,165	1,609	7,141	755	1,721	9,617
Professional fees	2,665	1,377	1,077	1,489	6,608	699	1,593	8,900
Telephone	2,467	1,275	997	1,378	6,117	647	1,475	8,239
Insurance	2,083	1,076	843	1,164	5,166	547	1,245	6,958
Postage and shipping	831	429	336	464	2,060	218	497	2,775
Travel and auto	720	372	291	403	1,786	189	431	2,406
Client expenses	827	427	335	463	2,052	-	-	2,052
Retirement plan contributions	490	253	198	274	1,215	130	293	1,638
Depreciation	412	213	167	230	1,022	108	246	1,376
Repairs and maintenance	359	186	145	201	891	94	215	1,200
Dues, subscriptions & education	328	170	133	184	815	86	196	1,097
Miscellaneous	316	163	127	176	782	83	189	1,054
	151,231	78,131	61,152	84,529	375,043	28,328	64,564	467,935
Fund-raising events direct expenses							68,656	68,656
	\$ 151,231	\$ 78,131	\$ 61,152	\$ 84,529	\$ 375,043	\$ 28,328	\$ 133,220	\$ 536,591
Percentage of total expenses					69.89%	5.25%	24.83%	100.00%

See Notes to Financial Statements

The Epilepsy Foundation of Kentuckiana, Inc.
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from contributions and grants	241,701	286,492
Cash received from special events and fundraising activities	265,919	259,133
Interest received	137	113
Cash paid for payroll, employee benefits, and payroll taxes	(269,306)	(297,056)
Cash paid to suppliers	(270,260)	(230,211)
	<u>(31,809)</u>	<u>18,471</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Purchase of equipment and furniture	(5,290)	-
	<u>(5,290)</u>	<u>-</u>
Net cash used in investing activities		
Net increase (decrease) in cash	(37,099)	18,471
Cash at beginning of year	<u>177,673</u>	<u>159,202</u>
Cash at end of year	<u>\$ 140,574</u>	<u>\$ 177,673</u>
Reconciliation of increase in net assets to net cash provided by (used in) operating activities:		
Increase in net assets	\$ 18,910	\$ 24,482
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,559	1,376
Changes in assets and liabilities:		
(Increase) decrease in:		
Pledges receivable	(15,155)	(7,322)
Contributions receivable	(22,000)	(10,000)
Grants receivable	(25,000)	25,000
Prepaid expenses	4,406	(3,808)
Increase (decrease) in:		
Accounts payable	3,236	(7,184)
Accrued and withheld payroll taxes	830	(3,620)
Accrued vacation	4,655	(1,953)
Deferred revenue	(3,250)	1,500
	<u>(50,719)</u>	<u>(6,011)</u>
Total adjustments		
Net cash provided by (used in) operating activities	<u>\$ (31,809)</u>	<u>\$ 18,471</u>

See Notes to Financial Statements

The Epilepsy Foundation of Kentuckiana, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

Note A Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations:

The Epilepsy Foundation of Kentuckiana, Inc., (EFKY) is located in Louisville, Kentucky and was founded in 1996 as an independent affiliate of The Epilepsy Foundation of America, Inc. EFKY leads the fight to stop seizures, find a cure, and overcome challenges created by epilepsy. This is done by offering an array of comprehensive and diverse programs and service designed to educate, advocate and support children, adults, and veterans affected by epilepsy and seizure disorders throughout Kentucky and Southern Indiana. EFKY receives funds from special events, grants, and contributions from individual and corporate donors.

Summary of Significant Accounting Policies:

Basis of Accounting:

The financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation:

Information regarding financial position and activities is reported according to three classes of net assets that are based upon the existence or absence of donor restrictions on use:

Unrestricted: Net assets that are not subject to donor imposed restrictions; available for purposes deemed necessary by management.

Temporarily restricted: Net assets restricted by donors or grantors to a specific time period or purpose. When the restriction expires, that is, when a stipulated restriction ends or a purpose restriction is accomplished, these net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted: Net assets that are permanently restricted by the donor, such as endowment funds.

The Epilepsy Foundation of Kentuckiana, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

Property and Equipment:

Property and equipment is stated at cost if purchased.

Donations of property and equipment are recorded as contributions at fair value on the date of the donation. Such donations are recorded as increases in unrestricted net assets 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 property and equipment are reported as restricted contributions.

Absent donor stipulations regarding how long those donated assets must be maintained, expirations of donor restrictions are reported as reclassifications from temporarily restricted net assets to unrestricted net assets when the donated or acquired assets are placed in service as instructed by the donor.

Items in excess of \$250 are capitalized and depreciated using the straight-line method over their estimated useful lives, which range from 5-10 years. Items not meeting this threshold are charged to expense as incurred.

Promises to Give:

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Unconditional promises to give that are receivable within one year are reported at net realizable value (gross amount less an allowance, if applicable), which approximates fair value. Unconditional promises to give that are expected to be collected in more than one year are reported at fair value initially and in subsequent periods using an appropriate discount rate.

Conditional promises to give are recognized as revenues or gains only when the conditions on which they depend are substantially met and the promises become unconditional.

The Epilepsy Foundation of Kentuckiana, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

Deferred Revenue:

EFKY conducts various fund-raising special events. Cash is sometimes received from sponsors and other participants prior to the fiscal year in which the event is held. These receipts are not recorded as revenue when received since the sponsors and other participants receive advertising space and other ancillary benefits in return for their payment and payments received by EFKY would be refunded should the event be cancelled. These amounts received are recorded as deferred revenue and will be recognized as revenue in the fiscal year in which the event is held.

Contributions and donated services:

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and nature of any donor restrictions. Contributions other than cash are recorded at fair market value on the date of the donation.

Many individuals volunteer their time and perform a variety of tasks that assist EFKY. Donated services are recognized as revenue if the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would otherwise be purchased if not provided by donation. Donated services that do not meet the above criteria are not recognized as revenues and are not reported in the financial statements.

Advertising Costs:

Advertising costs are expensed as incurred.

Functional Expense Allocation:

Expenses are allocated based on the percentage of direct salaries associated with programs, management and general, and fundraising. Program expenses are allocated to the general program categories of public education, professional education, community service, and client assistance.

The Epilepsy Foundation of Kentuckiana, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

Exemption from Income Taxes:

EFKY is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, net income from certain activities not directly related to the tax-exempt purpose is subject to taxation as unrelated business income. Management believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements, including any net income from activities that could be subject to taxation as unrelated business income. Therefore, no provision for income taxes has been made in the financial statements.

In addition, EFKY qualifies for the charitable contribution deduction and has been classified as a public charity under the applicable provisions of the Internal Revenue Code.

Fair Value Measurements:

Assets and liabilities subject to fair value measurements are valued using a hierarchy that defines three levels of inputs. Level 1 inputs are based on quoted market prices within active markets. Level 2 inputs are based on observable market-based inputs other than quoted prices within active markets. Level 3 inputs are based on management's assumptions and unobservable inputs.

Estimates:

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. However, actual results could differ from those estimates and assumptions.

Charitable Perpetual Trust Fund:

EFKY is an income beneficiary of a charitable perpetual trust fund held by The Epilepsy Foundation of America, Inc. The assets of the trust are not included in the financial statements since they are not under the control of EFKY.

The Epilepsy Foundation of Kentuckiana, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

Reclassifications:

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Note B Concentrations

EFKY maintains checking accounts at two banks located in Louisville, Kentucky. Checking accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per depositor. In the normal course of business, there may be deposits in excess of the insured balance. There were no deposits in excess of the insured balance at June 30, 2016. (See also Notes C and D.)

Note C Unconditional Promises to Give

Pledges receivable:

Pledges receivable are recorded at net realizable value, which approximates fair value, and are receivable within one year:

	June 30	
	2016	2015
Fund-raising walks-participants	\$ 10,680	\$ 2,220
Fund-raising walks-sponsors	25,000	18,000
Board members	325	630
	<u>\$ 36,005</u>	<u>\$ 20,850</u>

Contributions receivable:

Contributions receivable comprises amounts receivable from one funding source. The long-term portion at June 30, 2016 is to be received during the fiscal year ending June 30, 2018.

The Epilepsy Foundation of Kentuckiana, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

Note D Grants Receivable

Grants receivable comprise amounts receivable from a Commonwealth of Kentucky governmental agency. This agency accounted for approximately 17% and 18% of the total support and revenue amount reported on the statement of activities for the years ended June 30, 2016 and 2015, respectively.

Note E In-Kind Contributions

Included in the contributions caption on the statement of activities are in-kind contributions of approximately \$18,000 and \$25,000 for the years ended June 30, 2016 and 2015, respectively. (See also Note G.)

Note F Retirement Plan

Eligible employees participate in a 403(b) retirement plan. EFKY provides a matching contribution up to 1% of gross pay on behalf of the employee.

Note G Commitments

EFKY occupies premises that are an in-kind donation from another not-for-profit entity. The lease term ends on September 30, 2023. The estimated fair rental value is \$1,248 per month, or \$14,976 annually, and is included in the in-kind contributions caption on the statement of activities for the years ended June 30, 2016 and 2015, respectively.

Note H Related Party Transactions

As described in Note A, EFKY is an independent affiliate of The Epilepsy Foundation of America, Inc. ("Foundation"). During the years ended June 30, 2016 and 2015, EFKY received approximately \$28,000 and \$25,000, respectively, from the Foundation for use in specific programs and also received approximately \$25,000 and \$26,000, respectively, as an income beneficiary of the Charitable Perpetual Trust Fund administered by the Foundation.

Included in the program expenses caption on the statement of activities are affiliation fees of approximately \$16,000 and \$12,000 paid to the Foundation for the years ended June 30, 2016 and 2015, respectively.

The Epilepsy Foundation of Kentuckiana, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

Note I Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the funding of various programs in the subsequent year:

	Balance 6-30-15	Received	Released from restrictions	Balance 6-30-16
Kosair Charities	\$ 32,500	\$ 42,000	\$ (20,000)	\$ 54,500
Dept. of Veterans Affairs	-	116,269	(91,269)	25,000
Art Therapy	7,900	7,900	(7,900)	7,900
African American	5,000	5,000	(10,000)	-
School nurse/training	-	4,000	(4,000)	-
Statewide conference	10,075	10,000	(10,075)	10,000
Cap the Copay	-	40,000	(40,000)	-
Bounce out the Stigma	-	3,250	(3,250)	-
Various other	2,281	28,134	(30,415)	-
	<u>\$ 57,756</u>	<u>\$ 256,553</u>	<u>\$ (216,909)</u>	<u>\$ 97,400</u>

	Balance 6-30-14	Received	Released from restrictions	Balance 6-30-15
Kosair Charities	\$ 22,500	\$ 25,000	\$ (15,000)	\$ 32,500
Dept. of Veterans Affairs	25,000	106,585	(131,585)	-
Art Therapy	7,500	7,900	(7,500)	7,900
African American	2,017	5,000	(2,017)	5,000
School nurse/training	-	4,400	(4,400)	-
Statewide conference	5,788	10,075	(5,788)	10,075
Cap the Copay	-	35,000	(35,000)	-
Bounce out the Stigma	-	5,250	(5,250)	-
Various other	-	15,944	(13,663)	2,281
	<u>\$ 62,805</u>	<u>\$ 215,154</u>	<u>\$ (220,203)</u>	<u>\$ 57,756</u>

The Epilepsy Foundation of Kentuckiana, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

Note J Fund-Raising Events Direct Expenses

Expenses directly associated with fund-raising events are as follows:

	June 30	
	2016	2015
Food and beverages	\$ 22,433	\$ 7,909
Participant incentives	22,237	22,396
Facility costs	20,421	11,961
Credit card processing fees	7,760	7,109
Entertainment	6,190	450
Office expenses	5,655	4,249
Printing	4,157	7,672
Travel	2,161	5,280
Postage and delivery	825	506
Advertising	610	1,124
	<u>\$ 92,449</u>	<u>\$ 68,656</u>

Note K Subsequent Events

Management has evaluated subsequent events through November 30, 2016 which is the date the financial statements were available to be issued.