

COMBINED FINANCIAL STATEMENTS

**EPILEPSY FOUNDATION NATIONAL OFFICE
AND AFFILIATES**

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

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 statement of financial position of the Epilepsy Foundation National Office and Affiliates as of June 30, 2007 and 2006, 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 7, 2008

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EPILEPSY FOUNDATION NATIONAL OFFICE AND AFILIATES

COMBINED STATEMENTS OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2007

ASSETS

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 13,390,434	\$ 14,071,240
Accounts receivable (net of allowance for doubtful accounts of \$492,091 and \$363,234, respectively):		
Contributions and fees	8,950,130	7,563,748
Government grants	7,579,184	7,673,093
Other receivables	222,834	567,701
	<u>16,752,148</u>	<u>15,804,542</u>
Prepaid expenses and other assets	2,411,284	2,258,779
Inventories	85,523	241,074
Interest in Perpetual Trust	3,630,821	3,386,001
Investments	30,364,406	25,488,729
Property and equipment (net of depreciation)	<u>10,404,816</u>	<u>9,641,979</u>
TOTAL ASSETS	<u>\$ 77,039,432</u>	<u>\$ 70,892,344</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 8,564,786	\$ 9,113,123
Grants payable	3,014,750	3,014,750
Deferred revenue	5,630,743	6,760,648
Capital lease obligations	1,423,077	1,541,316
Notes payable	<u>4,845,769</u>	<u>5,704,042</u>
Total liabilities	<u>23,479,125</u>	<u>26,133,879</u>

NET ASSETS

Unrestricted net assets	27,361,306	20,603,311
Temporarily restricted net assets	18,013,545	16,552,847
Permanently restricted net assets	<u>8,185,456</u>	<u>7,602,307</u>
Total net assets	<u>53,560,307</u>	<u>44,758,465</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 77,039,432</u>	<u>\$ 70,892,344</u>

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007				2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS, AND OTHER SUPPORT:								
Contributions	\$ 18,077,823	\$ 5,773,424	\$ 298,310	\$ 24,149,557	\$ 12,709,007	\$ 8,358,096	\$ 92,563	\$ 21,159,666
Government grants	51,662,267	154,619	-	51,816,886	48,022,301	254,083	-	48,276,384
Program service fees	2,109,842	21,326	-	2,131,168	2,077,739	930	-	2,078,669
Sales of materials	142,938	-	-	142,938	167,835	-	-	167,835
Special Events, net of direct cost of \$3,549,068 and \$3,876,691	6,581,288	271,281	-	6,852,569	5,957,644	149,285	-	6,106,929
Investment	2,167,209	1,765,709	86,946	4,019,864	815,070	501,494	(40,042)	1,276,522
Other	389,555	89,778	-	479,333	656,205	232,080	-	888,285
Change in value of split interest agreements	182,520	3,569	244,820	430,909	(29,495)	304	111,456	82,265
Provision for uncollectible pledges	(200,000)	-	-	(200,000)	-	(242,060)	-	(242,060)
Net Assets released from restrictions - Satisfaction of program restrictions	6,665,935	(6,619,008)	(46,927)	-	6,347,189	(6,347,189)	-	-
Total revenue, gains, and other support	87,779,377	1,460,698	583,149	89,823,224	76,723,495	2,907,023	163,977	79,794,495
EXPENSES:								
Program Services:								
Research	3,050,610	-	-	3,050,610	3,721,759	-	-	3,721,759
Public Health Education	6,186,394	-	-	6,186,394	6,140,607	-	-	6,140,607
Professional Education and Training	1,808,355	-	-	1,808,355	1,504,343	-	-	1,504,343
Community Services	7,566,387	-	-	7,566,387	6,882,349	-	-	6,882,349
Patient Services	51,273,730	-	-	51,273,730	46,847,636	-	-	46,847,636
Total program services	69,885,476	-	-	69,885,476	65,096,694	-	-	65,096,694
Supporting Services:								
Management and General	7,852,330	-	-	7,852,330	7,253,239	-	-	7,253,239
Fundraising	3,702,574	-	-	3,702,574	3,452,633	-	-	3,452,633
Total supporting services	11,554,904	-	-	11,554,904	10,705,872	-	-	10,705,872
Total expenses	81,440,380	-	-	81,440,380	75,802,566	-	-	75,802,566
Changes in net assets	6,338,997	1,460,698	583,149	8,382,844	920,929	2,907,023	163,977	3,991,929
Net assets, beginning of year	20,603,311	16,552,847	7,602,307	44,758,465	20,234,010	13,945,046	7,438,330	41,617,386
Prior period restatement	-	-	-	-	(84,285)	(195,409)	-	(279,694)
Discontinued Operations	-	-	-	-	(201,045)	-	-	(201,045)
Merger of investment assets from former affiliate	432,373	-	-	432,373	-	-	-	-
Changes in Affiliation	(13,375)	-	-	(13,375)	(266,298)	(103,813)	-	(370,111)
Net assets, beginning of year, as restated	21,022,309	16,552,847	7,602,307	45,177,463	19,682,382	13,645,824	7,438,330	40,766,536
NET ASSETS, END 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

See accompanying notes and accountants' report

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

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

	Program Services					Supporting Services				
	Research	Public Health Education	Professional Education/ Training	Community Services	Patient Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
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	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	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' report.

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006

	Program Services					Supporting Services				Total Expenses
	Research	Public Health Education	Professional Education and Training	Community Services	Patient Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 270,533	\$ 2,467,546	\$ 789,658	\$ 3,307,104	\$ 22,373,490	\$ 29,208,331	\$ 3,600,566	\$ 1,448,624	\$ 5,049,190	\$ 34,257,521
Employee benefits, payroll taxes, and costs	47,226	470,050	158,296	566,661	4,471,464	5,713,697	740,739	256,806	997,545	6,711,242
Temporary personnel	2,781	23,264	1,093	57,626	10,436	95,200	26,294	36,376	62,670	157,870
Total salary and benefit expenses	320,540	2,960,860	949,047	3,931,391	26,855,390	35,017,228	4,367,599	1,741,806	6,109,405	41,126,633
Professional fees and contract services	3,123	980,803	66,465	659,427	5,541,161	7,250,979	1,191,724	359,491	1,551,215	8,802,194
Supplies and materials	5,206	251,438	39,378	148,608	1,679,457	2,124,087	257,816	284,560	542,376	2,666,463
Telephone	9,233	75,491	21,796	128,353	366,041	600,914	59,958	205,792	265,750	866,664
Postage and shipping	4,859	226,754	33,405	86,288	171,929	523,235	54,077	260,294	314,371	837,606
Occupancy	133,832	352,832	89,981	492,971	3,267,456	4,337,072	552,464	170,822	723,286	5,060,358
Membership	9,305	46,590	11,690	50,378	130,929	248,892	92,765	21,654	114,419	363,311
Rental and maintenance of equipment	-	32,850	13,336	58,192	664,490	768,868	56,899	26,514	83,413	852,281
Printing, publications, and visual aids	29,933	440,148	89,350	276,392	391,468	1,227,291	79,529	191,662	271,191	1,498,482
Travel, conferences, conventions, and meetings	43,077	357,484	85,790	712,742	1,907,778	3,106,871	188,426	94,230	282,656	3,389,527
Awards and grants	3,080,000	97,257	52,999	152,002	4,244,471	7,626,729	37,630	20,740	58,370	7,685,099
Miscellaneous	25,660	242,167	31,212	82,526	829,809	1,211,374	186,592	30,250	216,842	1,428,216
Bad debts	-	3,065	3,269	2,248	18,140	26,722	8,878	2,043	10,921	37,643
Depreciation and amortization	56,991	72,868	16,625	100,831	779,117	1,026,432	118,882	42,775	161,657	1,188,089
Total other expenses	3,401,219	3,179,747	555,296	2,950,958	19,992,246	30,079,466	2,885,640	1,710,827	4,596,467	34,675,933
TOTAL EXPENSES	\$ 3,721,759	\$ 6,140,607	\$ 1,504,343	\$ 6,882,349	\$ 46,847,636	\$ 65,096,694	\$ 7,253,239	\$ 3,452,633	\$ 10,705,872	\$ 75,802,566

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS
AS OF JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 8,382,844	\$ 3,991,929
Adjustments to reconcile changes in net assets to net cash provided by operations:		
Depreciation and amortization	1,212,018	1,234,423
Discontinued operations	-	(201,045)
Loss on disposal of property and equipment	18,735	198,874
Net realized and unrealized (gains) on sale of investments	(2,669,357)	(503,905)
Change in value of split interest agreements	(244,820)	82,267
Donated equipment	(5,347)	(5,400)
Donated investments	(192,854)	(1,792,616)
Contributions restricted for long-term investments	(298,310)	(92,563)
Change in cash due to disaffiliation	(13,374)	(370,117)
Changes in cash due to prior period adjustment	-	(279,694)
Accounts and grants receivable	(947,617)	(1,934,652)
Prepaid expenses	(152,505)	(158,430)
Inventories	155,551	(11,028)
Accounts payable and accrued expenses	(73,077)	2,332,847
Grants payable	(475,258)	390,500
Deferred revenue	(1,129,905)	6,153,850
Net cash provided by operating activities	<u>3,566,724</u>	<u>9,035,240</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(1,743,517)	(1,531,289)
Proceeds from sales of property and equipment	3,175	38,910
Merger of investments from former affiliate	432,373	-
Purchases of investments	(6,600,127)	(9,098,305)
Proceeds from sales of investments	4,588,190	6,416,812
Net cash used by investing activities	<u>(3,319,906)</u>	<u>(4,173,872)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contribution of permanently restricted net assets	298,310	92,563
Repayment of capital leases	(118,239)	828,139
Proceeds from notes payables	503,866	1,072,436
Repayment of notes payable	(1,611,561)	(1,261,419)
Net cash provided (used) by financing activities	<u>(927,624)</u>	<u>731,719</u>
Net increase (decrease) in cash and cash equivalents	(680,806)	5,593,087
Cash and cash equivalents at beginning of year	<u>14,071,240</u>	<u>8,478,153</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 13,390,434</u>	<u>\$ 14,071,240</u>

See accompanying notes and accountants' reports

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS. JUNE 30, 2007 AND 2006

1. ORGANIZATION

The Epilepsy Foundation National Office (the "Foundation") is a nonprofit 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 account. Consequently, revenue is recognized when earned and expenses when obligations are incurred.

Basis of combination -

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

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.

Income tax status -

The Foundation, Research Foundation and Affiliates are all 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.

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS. JUNE 30, 2007 AND 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Split interest agreements -

A split interest agreement is created when a donor contributes assets directly to a nonprofit organization or places them in a trust for the benefit of the nonprofit 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 adjustment to the perpetual trust's fair value is 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, 2007 and 2006, the market value of the pooled income fund investments was \$288,567 and \$286,207, respectively. Furthermore, the related deferred revenue was \$48,372 and \$51,940 at June 30, 2007 and 2006, 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, 2007 and 2006, the market value of the charitable gift annuity investments was \$220,233 and \$252,131, respectively. Furthermore, the related liability was \$114,356 and \$134,968 at June 30, 2007 and 2006, respectively.

Investments -

Investments are recorded at fair market value.

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS. JUNE 30, 2007 AND 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 (two to forty years). Leasehold improvements are amortized on a straight-line basis over the remaining life of the lease.

Grants payable -

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

Net asset classification -

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

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

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 statement of activities 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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

**NOTES TO COMBINED FINANCIAL STATEMENTS.
JUNE 30, 2007 AND 2006**

3. INVESTMENTS

Investments consisted of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Money market accounts	\$ 2,291,271	\$ 2,424,029
Treasury bills	26,898	92,487
Equity securities	14,791,597	12,821,997
Fixed income securities	8,056,586	6,245,081
Mutual funds	5,198,054	3,905,135
	<u>\$30,364,406</u>	<u>\$25,488,729</u>

Included in investment income are the following:

	<u>2007</u>	<u>2006</u>
Dividends and interest	\$ 1,350,506	\$ 772,617
Realized gains	2,411,727	124,197
Unrealized gains	257,631	379,708
	<u>\$ 4,019,864</u>	<u>\$ 1,276,522</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Buildings	\$10,425,098	\$ 9,136,965
Furniture and equipment	8,898,342	8,861,922
Equipment under capital lease	71,192	64,379
Leasehold improvements	964,992	903,243
	20,359,624	18,966,509
Accumulated depreciation and amortization	<u>(9,954,808)</u>	<u>(9,324,530)</u>
	<u>\$10,404,816</u>	<u>\$ 9,641,979</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 \$71,192 and \$64,379 at June 30, 2007 and 2006, respectively.

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

**NOTES TO COMBINED FINANCIAL STATEMENTS.
JUNE 30, 2007 AND 2006**

5. CAPITAL LEASE OBLIGATIONS (Continued)

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

<u>Year Ending June 30,</u>	
2008	\$ 393,721
2009	199,408
2010	177,170
2011	176,643
2012	15,616
Thereafter	<u>1,133,492</u>
	2,096,050
Less: Interest portion of payments	<u>(672,973)</u>
	<u>\$ 1,423,077</u>

6. NOTES PAYABLE

Certain Affiliates have promissory notes that bear interest ranging from 2% to 11%. Interest expense relating to these promissory notes totaled \$374,964 and \$353,047 for the years ended June 30, 2007 and 2006, respectively. The majority of these promissory notes are secured by real estate or equipment. Future minimum principal payments on these promissory notes for years ending June 30 are as follows:

<u>Year Ending June 30,</u>	
2008	\$ 1,000,751
2009	530,660
2010	324,293
2011	991,425
2012	276,313
Thereafter	<u>1,722,327</u>
	<u>\$ 4,845,769</u>

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2006 and 2005:

	<u>2007</u>	<u>2006</u>
Research activities	\$13,397,433	\$11,472,600
Public health education	359,635	830,509
Professional education and training	20,318	84,340
Community services	1,075,025	1,603,950
Patient services	2,309,455	1,813,847
Pooled income fund	270,417	261,878
Due from United Way	384,179	336,124
Donated Facilities	103,496	-
Sheboygan area programs	25,322	13,678
Time Restriction	68,265	135,921
	<u>\$18,013,545</u>	<u>\$16,552,847</u>

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

**NOTES TO COMBINED FINANCIAL STATEMENTS.
JUNE 30, 2007 AND 2006**

8. 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, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Research	\$ 2,008,636	\$ 1,886,031
National Epilepsy Library	20,000	20,000
Reinvestment in Endowment	78,848	76,254
General	5,625,957	5,456,626
Patient services	193,779	163,396
Campership Fund	<u>258,236</u>	<u>-</u>
	<u>\$ 8,185,456</u>	<u>\$ 7,602,307</u>

9. 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, 2007 and 2006 was \$4,724,904 and \$5,060,358, respectively.

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

<u>Year Ending June 30,</u>	
2008	\$ 4,459,963
2009	2,342,218
2010	2,069,223
2011	1,751,504
2012	1,114,438
Thereafter	<u>5,215,175</u>
	<u>\$16,952,521</u>

10. RETIREMENT PLANS

The Foundation has a 401(k) Thrift 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 this plan, all employees who meet minimum service and age requirements are eligible to participate. The Foundation's contributions to these plans for the fiscal years ended June 30, 2007 and 2006 were \$341,196 and \$323,001, 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, 2007 and 2006 were \$1,239,695 and \$794,466, respectively.

EPILEPSY FOUNDATION NATIONAL OFFICE AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS. JUNE 30, 2007 AND 2006

11. ALLOCATION OF JOINT COSTS

For the years ended June 30, 2007 and 2006, the Organizations incurred joint costs of \$746,607 and \$662,460, respectively, related to educational information included in fundraising appeals. Of those costs, \$426,708 and \$382,335 was allocated to fundraising expenses and \$319,899 and \$280,125 was allocated to public health education for the years ended June 30, 2007 and 2006, respectively.

12. PRIOR PERIOD RESTATEMENT

At June 30, 2005, one of the Affiliates was holding money received for a related party. This money was recorded as income. The prior period was restated to transfer that money out of cash and show it as a liability to the related party. The total effect of this restatement was to decrease net assets by \$204,339 and increase liabilities by the same amount.

Another Affiliate restated their financial statements to record deferred rent resulting in an understatement of previously reported liabilities and an overstatement of previously reported net assets. An adjustment of \$75,355 was made to reduce net assets.

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 through they had taken place as of the beginning of such year.