

**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS**

YEARS ENDED JUNE 30, 2006 AND 2005

INDEPENDENT AUDITORS' REPORT

Board of Directors
Epilepsy Foundation
Landover, Maryland

We have audited the accompanying consolidated statements of financial position of the Epilepsy Foundation and the Epilepsy Research Foundation (collectively referred to herein as the "Organization") as of June 30, 2006, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Epilepsy Foundation and the Epilepsy Research Foundation as of June 30, 2005 were audited by Langan Associates, P.C. (whose practice became part of Larson, Allen, Weishair & Co., LLP effective May 1, 2006), whose report dated September 2, 2005, expressed an unqualified opinion on those statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Epilepsy Foundation and the Epilepsy Research Foundation as of June 30, 2006, and the changes in their net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Arlington, Virginia
September 22, 2006

**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
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**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2006 AND 2005**

ASSETS	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 611,451	\$ 339,824
Receivables:		
Due from Affiliates	105,412	116,986
Government Grants Receivable	322,397	852,328
Contributions Receivable, Current Portion	4,462,859	6,151,509
Less Allowance for Doubtful Accounts	<u>(257,090)</u>	<u>(66,476)</u>
Total Receivables	4,633,578	7,054,347
Prepaid Expenses and Other Assets	339,114	251,689
Inventory	<u>236,413</u>	<u>221,050</u>
Total Current Assets	5,820,556	7,866,910
 CONTRIBUTIONS RECEIVABLE, Net of Current Portion	 440,000	 262,000
 BENEFICIAL INTEREST IN PERPETUAL TRUSTS	 3,386,001	 3,274,545
 INVESTMENTS	 14,672,065	 11,112,922
 PROPERTY AND EQUIPMENT, Net	 <u>515,775</u>	 <u>469,326</u>
 Total Assets	 <u><u>\$ 24,834,397</u></u>	 <u><u>\$ 22,985,703</u></u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 1,159,911	\$ 1,406,180
Line of Credit	450,000	-
Due to Affiliates	220,199	257,381
Grants Payable, Current Portion	2,826,250	2,386,750
Deferred Revenue	<u>224,358</u>	<u>238,263</u>
Total Current Liabilities	4,880,718	4,288,574
 GRANTS PAYABLE, Net of Current Portion	 <u>188,500</u>	 <u>237,500</u>
 Total Liabilities	 5,069,218	 4,526,074
 NET ASSETS		
Unrestricted	1,046,547	1,960,006
Temporarily Restricted	14,327,280	12,251,023
Permanently Restricted	<u>4,391,352</u>	<u>4,248,600</u>
Total Net Assets	19,765,179	18,459,629
 Total Liabilities and Net Assets	 <u><u>\$ 24,834,397</u></u>	 <u><u>\$ 22,985,703</u></u>

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

**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2006 AND 2005**

	2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE				
Contributions	\$ 4,878,632	\$ 7,009,913	\$ 31,296	\$ 11,919,841
Government Grants	4,026,111	-	-	4,026,111
Affiliate Dues	579,594	-	-	579,594
Sales of Materials	165,828	-	-	165,828
Special Events, Net of Direct Cost of \$240,114 and \$221,950, Respectively	350,650	-	-	350,650
Investment Income	198,141	491,826	-	689,967
Other	48,265	227,647	-	275,912
Change in Value of Split Interest Agreements	(29,495)	304	111,456	82,265
Provision for Uncollectible Pledges	-	(242,060)	-	(242,060)
Net Assets Released from Restrictions	5,411,373	(5,411,373)	-	-
Total Revenue	<u>15,629,099</u>	<u>2,076,257</u>	<u>142,752</u>	<u>17,848,108</u>
EXPENSES				
Program Services:				
Research	3,721,991	-	-	3,721,991
Public Health Education	3,142,890	-	-	3,142,890
Professional Education and Training	84,224	-	-	84,224
Community Services	4,797,791	-	-	4,797,791
Patient Services	1,204,505	-	-	1,204,505
Total Program Services	<u>12,951,400</u>	<u>-</u>	<u>-</u>	<u>12,951,400</u>
Supporting Services:				
Management and General	1,914,165	-	-	1,914,165
Fundraising	1,676,992	-	-	1,676,992
Total Supporting Services	<u>3,591,158</u>	<u>-</u>	<u>-</u>	<u>3,591,158</u>
Total Expenses	<u>16,542,558</u>	<u>-</u>	<u>-</u>	<u>16,542,558</u>
CHANGES IN NET ASSETS	(913,459)	2,076,257	142,752	1,305,550
NET ASSETS - BEGINNING OF YEAR	<u>1,960,006</u>	<u>12,251,023</u>	<u>4,248,600</u>	<u>18,459,629</u>
NETS ASSETS - END OF YEAR	<u>\$ 1,046,547</u>	<u>\$ 14,327,280</u>	<u>\$ 4,391,352</u>	<u>\$ 19,765,179</u>

See accompanying Notes to Consolidated Financial Statements.

**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,305,550	\$ 707,898
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	253,296	294,842
Provision for Uncollectible Pledges	242,060	
Loss on Disposal of Property and Equipment	3,979	736
Realized Losses on Investments	22,675	15,349
Unrealized Gain on Investments	(357,920)	(299,604)
Change in Value of Split Interest Agreements	82,265	(39,497)
Donated Investments	(1,723,753)	-
Contribution of Permanently Restricted Net Assets	(31,296)	(10,000)
Changes in Assets and Liabilities:		
Receivables	1,889,253	(96,860)
Prepaid Expenses and Other Assets	(87,425)	(67,425)
Inventory	(15,363)	11,527
Accounts Payable and Accrued Expenses	(254,793)	325,162
Due to Affiliates	(37,182)	(36,216)
Grants Payable	390,500	246,375
Deferred Revenue	(18,474)	9,213
Net Cash Provided by Operating Activities	1,663,372	1,061,500
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property and Equipment	(303,724)	(234,130)
Purchases of Investments	(7,176,314)	(3,559,365)
Proceeds from Sales of Investments	5,606,997	1,790,968
Net Cash Provided (Used) by Investing Activities	(1,873,041)	(2,002,527)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Line of Credit	450,000	-
Contribution of Permanently Restricted Net Assets	31,296	10,000
Net Cash Provided by Financing Activities	481,296	10,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	271,627	(931,027)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	339,824	1,270,851
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 611,451	\$ 339,824

See accompanying Notes to Consolidated Financial Statements.

2005

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 4,910,272	\$ 6,237,012	\$ 10,000	\$ 11,157,284
4,486,102	-	-	4,486,102
625,645	-	-	625,645
144,282	-	-	144,282
331,874	-	-	331,874
175,689	438,024	-	613,713
57,517	139,907	-	197,424
(19,321)	6,340	52,478	39,497
-	(250,000)	-	(250,000)
6,904,538	(6,904,538)	-	-
17,616,598	(333,255)	62,478	17,345,821
3,378,414	-	-	3,378,414
2,960,760	-	-	2,960,760
123,071	-	-	123,071
5,354,255	-	-	5,354,255
1,380,613	-	-	1,380,613
13,197,113	-	-	13,197,113
1,747,078	-	-	1,747,078
1,693,732	-	-	1,693,732
3,440,810	-	-	3,440,810
16,637,923	-	-	16,637,923
978,675	(333,255)	62,478	707,898
981,331	12,584,278	4,186,122	17,751,731
<u>\$ 1,960,006</u>	<u>\$ 12,251,023</u>	<u>\$ 4,248,600</u>	<u>\$ 18,459,629</u>

**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2006**

	Program			
	Research	Public Health Education	Professional Education and Training	Community Services
Salaries	\$ 270,533	\$ 905,931	\$ 46,501	\$ 1,476,111
Temporary Personnel	2,781	22,069	-	55,968
Employee Benefits	47,226	186,294	9,766	307,322
Total Salary and Benefit Expenses	<u>320,539</u>	<u>1,114,294</u>	<u>56,268</u>	<u>1,839,401</u>
Professional Fees and Contract Services	3,123	817,615	308	472,766
Membership	9,305	11,238	2,280	12,662
Supplies and Materials	5,206	143,745	1,801	36,085
Telephone	9,233	23,059	1,067	59,052
Postage and Shipping	4,859	169,840	1,376	34,317
Occupancy	133,832	113,765	3,015	187,096
Printing and Publications	29,933	281,698	2,392	199,420
Travel and Meetings	43,077	161,150	14,265	537,492
Payments to Affiliates	233	240,772	59	1,343,820
Awards and Grants	3,080,000	7,700	-	101
Miscellaneous	25,660	9,890	104	2,116
Depreciation and Amortization	56,991	48,123	1,290	73,463
	<u>3,401,451</u>	<u>2,028,596</u>	<u>27,956</u>	<u>2,958,390</u>
 Total Expenses	 <u>\$ 3,721,991</u>	 <u>\$ 3,142,890</u>	 <u>\$ 84,224</u>	 <u>\$ 4,797,791</u>

See accompanying Notes to Consolidated Financial Statements.

Services		Supporting Services			
Patient Services	Total	Management and General	Fundraising	Total	Total Expenses
\$ 710,605	\$ 3,409,681	\$ 1,078,697	\$ 443,785	\$ 1,522,482	\$ 4,932,164
8,154	88,972	25,521	35,795	61,316	150,288
151,511	702,120	226,766	91,701	318,467	1,020,587
870,270	4,200,773	1,330,984	571,282	1,902,265	6,103,038
17,749	1,311,561	287,691	264,626	552,317	1,863,878
10,363	45,848	8,017	7,311	15,328	61,176
4,909	191,746	24,403	182,240	206,643	398,389
12,426	104,837	8,282	179,239	187,521	292,358
12,847	223,239	6,722	228,309	235,031	458,270
46,627	484,335	86,942	65,744	152,686	637,021
29,704	543,147	18,490	37,994	56,484	599,631
24,269	780,254	61,756	42,152	103,908	884,162
117,614	1,702,498	174	68,495	68,669	1,771,167
38,658	3,126,458	-	-	-	3,126,458
626	38,395	51,396	3,922	55,318	93,713
18,443	198,310	29,308	25,678	54,986	253,296
334,234	8,750,627	583,182	1,105,711	1,688,892	10,439,520
<u>\$ 1,204,505</u>	<u>\$ 12,951,400</u>	<u>\$ 1,914,165</u>	<u>\$ 1,676,992</u>	<u>\$ 3,591,158</u>	<u>\$ 16,542,558</u>

**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2005**

	Program			
	Research	Public Health Education	Professional Education and Training	Community Services
Salaries	\$ 255,895	\$ 756,586	\$ 42,729	\$ 1,428,610
Temporary Personnel	1,163	5,920	1,163	43,711
Employee Benefits	50,985	165,073	8,907	302,528
Total Salary and Benefit Expenses	<u>308,043</u>	<u>927,579</u>	<u>52,799</u>	<u>1,774,849</u>
Professional Fees and Contract Services	3,114	889,525	342	761,653
Membership	10,756	12,323	2,643	11,801
Supplies and Materials	5,323	105,022	1,335	20,005
Telephone	8,636	11,337	1,026	32,757
Postage and Shipping	6,826	192,522	1,445	32,546
Occupancy	115,724	101,863	4,198	198,483
Printing and Publications	16,150	441,348	1,915	356,517
Travel and Meetings	95,522	199,454	55,016	655,138
Payments to Affiliates	120	21,367	30	1,404,990
Awards and Grants	2,727,500	2,000	-	9,320
Miscellaneous	20,831	3,952	141	1,313
Depreciation and Amortization	59,869	52,468	2,181	94,883
Total other expenses	<u>3,070,371</u>	<u>2,033,181</u>	<u>70,272</u>	<u>3,579,406</u>
 Total Expenses	 <u>\$ 3,378,414</u>	 <u>\$ 2,960,760</u>	 <u>\$ 123,071</u>	 <u>\$ 5,354,255</u>

See accompanying Notes to Consolidated Financial Statements.

Services		Supporting Services				
Patient Services	Total	Management and General	Fundraising	Total	Total Expenses	
\$ 662,016	\$ 3,145,836	\$ 1,010,537	\$ 533,503	\$ 1,544,040	\$ 4,689,876	
1,163	53,120	26,362	2,013	28,375	81,495	
140,079	667,572	215,577	116,086	331,663	999,235	
<u>803,258</u>	<u>3,866,528</u>	<u>1,252,476</u>	<u>651,602</u>	<u>1,904,078</u>	<u>5,770,606</u>	
22,933	1,677,567	242,473	202,797	445,270	2,122,837	
11,485	49,008	9,251	8,107	17,358	66,366	
4,293	135,978	17,926	230,569	248,495	384,473	
12,223	65,979	7,251	93,957	101,208	167,187	
19,941	253,280	3,327	245,775	249,102	502,382	
48,789	469,057	77,055	62,763	139,818	608,875	
38,389	854,319	25,386	52,244	77,630	931,949	
20,115	1,025,245	58,953	38,123	97,076	1,122,321	
336,282	1,762,789	84	76,926	77,010	1,839,799	
37,945	2,776,765	-	-	-	2,776,765	
494	26,731	21,936	854	22,790	49,521	
24,466	233,867	30,960	30,015	60,975	294,842	
<u>577,355</u>	<u>9,330,585</u>	<u>494,602</u>	<u>1,042,130</u>	<u>1,536,732</u>	<u>10,867,317</u>	
<u>\$ 1,380,613</u>	<u>\$ 13,197,113</u>	<u>\$ 1,747,078</u>	<u>\$ 1,693,732</u>	<u>\$ 3,440,810</u>	<u>\$ 16,637,923</u>	

**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 1 ORGANIZATION

The Epilepsy Foundation (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 persons 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, and the development of program and operational standards for its affiliates. The affiliates, which are separately incorporated and granted tax- exemption, are responsible for programs and information at the local level. The accompanying consolidated financial statements do not include the activities of affiliates.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Principles of Consolidation

These financial statements consolidate the accounts of the Foundation and Research Foundation pursuant to the criterion established by Statement of Position (SOP) 94-3, Reporting of Related Entities by Not-for-Profit Organizations, issued by the American Institute of Certified Public Accountants. Under this SOP, consolidation is required if a separate not-for-profit organization has control (i.e., major voting interest) and significant economic interest in that other organization. All significant inter-company accounts and transactions have been eliminated in consolidation.

Estimates

The preparation of consolidated 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.

**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

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

Cash and Cash Equivalents

For consolidated 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.

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, 2006 and 2005, the market value of the pooled income fund investments was \$286,207 and \$333,386, respectively. Furthermore, the related deferred revenue was \$51,940 and \$56,509 at June 30, 2006 and 2005, 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, 2006 and 2005, the market value of the charitable gift annuity investments was \$252,131 and \$251,505, respectively. Furthermore, the related liability was \$135,968 and \$144,492 at June 30, 2006 and 2006, respectively.

**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are recorded at fair market value.

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 (three to five 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 Assets

The Organizations report their net assets as unrestricted, temporarily restricted or permanently restricted based on the donor's intent. The purposes of each class of net assets are as follows:

Unrestricted - Represents net assets available for general operations.

Temporarily Restricted - Includes amounts with specific donor imposed purposes and/or time restrictions.

Permanently Restricted - Includes amounts received from donors which must be held in perpetuity.

Revenue Recognition

Revenue from affiliate dues, 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 period as unrestricted revenue.

**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Expenses

The Organizations' expenses have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 3 CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the organization to concentrations of credit risk, consist primarily of deposits at various financial institutions in the United States of America that exceed the Federal Deposit Insurance Corporation (FDIC) limits. Funds in excess of FDIC limits for the Organization totaled approximately \$170,432 at June 30, 2006.

NOTE 4 CONTRIBUTIONS RECEIVABLE

Contributions receivable represent unconditional promises to give and are stated at their net realizable value. Receivables which management determines to be uncollectible are written off. Management has established an allowance for doubtful accounts for those receivables it does not believe to be collectible. As of June 30, 2006 and 2005, there are \$4,568,271 and \$6,151,509, respectively, in unconditional promises to give that are expected to be collected in less than one year and \$440,000 and \$262,000, respectively, in unconditional promises to give that are expected to be collected between one to five years.

NOTE 5 INVESTMENTS

The investments of the Organizations consist of equity and fixed income securities held in managed accounts and mutual funds and include the following at June 30, 2006 and 2005, respectively:

	<u>2006</u>	<u>2005</u>
Equity	\$ 10,525,222	\$ 5,489,947
Fixed Income	4,146,843	5,622,975
	<u>\$ 14,672,065</u>	<u>\$ 11,112,922</u>
Total		

**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 5 INVESTMENTS (CONTINUED)

Investment income for the years ended June 30, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Dividends and Interest	\$ 354,722	\$ 329,458
Realized (Losses)	(22,675)	(15,349)
Unrealized Gain	<u>357,920</u>	<u>299,604</u>
Total	<u>\$ 689,967</u>	<u>\$ 613,713</u>

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Furniture and Equipment	\$ 272,638	\$ 255,182
Computer Equipment and Software	1,902,628	1,782,065
Leasehold Improvements	<u>164,683</u>	<u>74,610</u>
	2,339,949	2,111,857
Accumulated Depreciation and Amortization	<u>(1,824,174)</u>	<u>(1,642,531)</u>
Total	<u>\$ 515,775</u>	<u>\$ 469,326</u>

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2006</u>	<u>2005</u>
Purpose Restrictions		
Research Activities	\$ 11,472,600	\$ 9,384,009
Public Health Education	791,935	352,855
Professional Education and Training	65,000	102,080
Community Services	1,428,813	670,570
Patient Services	278,055	851,561
Pooled Income Fund	261,878	275,887
Time Restrictions	<u>28,999</u>	<u>614,060</u>
Total	<u>\$ 14,327,280</u>	<u>\$ 12,251,022</u>

**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Research	\$ 1,886,031	\$ 1,864,735
National Epilepsy Library Individuals or Organizations in Louisville, Kentucky	20,000	20,000
General	668,251	546,795
	<u>1,817,070</u>	<u>1,817,070</u>
Total	<u>\$ 4,391,352</u>	<u>\$ 4,248,600</u>

NOTE 9 OFFICE LEASE

The Foundation leases office space under an operating lease with a remaining noncancelable term in excess of one year. The office lease provides for escalation of three percent annually. Rent expense is recognized on a straight-line basis over the term of the lease. As of June 30, 2006 and 2005, there was \$224,806 and \$269,378, respectively, in deferred rent recorded in accounts payable and accrued expenses. Rent expense for the years ended June 30, 2006 and 2005 was \$500,660 and \$474,092, respectively.

On October 27, 2005, the Foundation entered into a new operating lease with a remaining noncancelable term in excess of one year. Under the terms of the agreement the new Lessor paid a buyout fee on the old lease in the amount of \$150,000. The office lease provides for escalation of three percent annually. The Foundation moved to the new office space August 1, 2006.

Minimum annual rental payments under this office lease are as follows:

<u>Year Ending June 30,</u>	
2007	\$ 522,028
2008	619,143
2009	673,754
2010	728,856
2011	776,873
Thereafter	<u>4,379,627</u>
	<u>\$ 7,700,281</u>

**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 10 PENSION PLAN

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 contribution to the pension plan for the fiscal years ended June 30, 2006 and 2005 was \$323,001 and \$286,628, respectively.

NOTE 11 ALLOCATION OF JOINT COSTS

For the years ended June 30, 2006 and 2005, the Foundation incurred joint costs of \$662,460 and \$778,088, respectively, related to educational information included in its fundraising appeals. Of those costs, \$382,335 and \$561,614 was allocated to fundraising expenses and \$280,125 and \$216,474 was allocated to public health education for the years ended June 30, 2006 and 2005, respectively.

NOTE 12 LINE OF CREDIT

The Foundation has a \$1,500,000 line of credit with a financial institution. The interest rate is calculated based on the indexed LIBOR rate plus 100 basis points and was 5.5% on June 30, 2006. This line of credit is secured by cash and other U.S. government securities and expires on November 30, 2006. As of June 30, 2006, \$450,000 was outstanding on this line of credit.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors
Epilepsy Foundation
Landover, Maryland

We have audited the basic consolidated financial statements of the Epilepsy Foundation and the Epilepsy Research Foundation as of and for the year ended June 30, 2006, and have issued our report dated September 22, 2006. That audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplemental information on pages 18 through 23, are presented for purposes of additional analysis, and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Arlington, Virginia
September 22, 2006

**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2006 AND 2005**

	June 30, 2006			Consolidated Total
	Epilepsy Foundation	Epilepsy Research Foundation	Eliminations	
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 611,451	\$ -	\$ -	\$ 611,451
Receivables:				
Due from Affiliates	105,412	-	-	105,412
Due from Foundation	-	524,423	(524,423)	-
Government Grants Receivable	322,397	-	-	322,397
Contributions Receivable, Current Portion	2,884,343	1,578,516	-	4,462,859
Less Allowance for Doubtful Accounts	(257,090)	-	-	(257,090)
Total Receivables	3,055,062	2,102,939	(524,423)	4,633,578
Prepaid Expenses and Other Assets	339,114	-	-	339,114
Inventory	236,413	-	-	236,413
Total Current Assets	4,242,040	2,102,939	(524,423)	5,820,556
CONTRIBUTIONS RECEIVABLE, Net of Current Portion	-	440,000	-	440,000
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	3,386,001	-	-	3,386,001
INVESTMENTS	14,672,065	-	-	14,672,065
PROPERTY AND EQUIPMENT, Net	515,775	-	-	515,775
Total Assets	<u>\$ 22,815,881</u>	<u>\$ 2,542,939</u>	<u>\$ (524,423)</u>	<u>\$ 24,834,397</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 1,159,911	\$ -	\$ -	\$ 1,159,911
Line of Credit	450,000	-	-	450,000
Due to Affiliates	220,199	-	-	220,199
Due to Research Foundation	524,423	-	(524,423)	-
Grants Payable, Current Portion	2,826,250	-	-	2,826,250
Deferred Revenue	224,358	-	-	224,358
Total Current Liabilities	5,405,141	-	(524,423)	4,880,718
GRANTS PAYABLE, Net of Current Portion	188,500	-	-	188,500
Total Liabilities	5,593,641	-	(524,423)	5,069,218
NET ASSETS				
Unrestricted	1,046,547	-	-	1,046,547
Temporarily Restricted	11,784,341	2,542,939	-	14,327,280
Permanently Restricted	4,391,352	-	-	4,391,352
Total Net Assets	17,222,240	2,542,939	-	19,765,179
Total Liabilities and Net Assets	<u>\$ 22,815,881</u>	<u>\$ 2,542,939</u>	<u>\$ (524,423)</u>	<u>\$ 24,834,397</u>

June 30, 2005

Epilepsy Foundation	Epilepsy Research Foundation	Eliminations	Consolidated Total
\$ 339,824	\$ -	\$ -	\$ 339,824
116,986	-	-	116,986
-	61,316	(61,316)	-
852,328	-	-	852,328
5,053,478	1,098,031	-	6,151,509
(66,476)	-	-	(66,476)
<u>5,956,316</u>	<u>1,159,347</u>	<u>(61,316)</u>	<u>7,054,347</u>
251,689	-	-	251,689
221,050	-	-	221,050
<u>6,768,879</u>	<u>1,159,347</u>	<u>(61,316)</u>	<u>7,866,910</u>
-	262,000	-	262,000
3,274,545	-	-	3,274,545
11,112,922	-	-	11,112,922
<u>469,326</u>	<u>-</u>	<u>-</u>	<u>469,326</u>
<u>\$ 21,625,672</u>	<u>\$ 1,421,347</u>	<u>\$ (61,316)</u>	<u>\$ 22,985,703</u>
\$ 1,406,180	\$ -	\$ -	\$ 1,406,180
257,381	-	-	257,381
61,316	-	(61,316)	-
2,386,750	-	-	2,386,750
238,263	-	-	238,263
<u>4,349,890</u>	<u>-</u>	<u>(61,316)</u>	<u>4,288,574</u>
237,500	-	-	237,500
4,587,390	-	(61,316)	4,526,074
1,960,006	-	-	1,960,006
10,829,676	1,421,347	-	12,251,023
4,248,600	-	-	4,248,600
<u>17,038,282</u>	<u>1,421,347</u>	<u>-</u>	<u>18,459,629</u>
<u>\$ 21,625,672</u>	<u>\$ 1,421,347</u>	<u>\$ (61,316)</u>	<u>\$ 22,985,703</u>

**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

	Epilepsy Foundation			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE				
Contributions	\$ 4,878,632	\$ 5,373,321	\$ 31,296	\$ 10,283,249
Government Grants	4,026,111	-	-	4,026,111
Affiliate Dues	579,594	-	-	579,594
Sales of Materials, Net of Direct Cost of \$102,711	165,828	-	-	165,828
Special Events, Net of Direct Cost of \$240,114	350,650	-	-	350,650
Investment Income	198,141	491,826	-	689,967
Other	48,265	227,647	-	275,912
Change in Value of Split Interest Agreements	(29,495)	304	111,456	82,265
Provision for Uncollectible Pledges	-	(242,060)	-	(242,060)
Net Assets Released from Restrictions	4,896,373	(4,896,373)	-	-
Total Revenue	<u>15,114,099</u>	<u>954,665</u>	<u>142,752</u>	<u>16,211,516</u>
EXPENSES				
Program Services:				
Research	3,206,991	-	-	3,206,991
Public health Education	3,142,890	-	-	3,142,890
Professional Education and Training	84,224	-	-	84,224
Community Services	4,797,791	-	-	4,797,791
Patient Services	1,204,505	-	-	1,204,505
Total Program Services	<u>12,436,400</u>	<u>-</u>	<u>-</u>	<u>12,436,400</u>
Supporting Services:				
Management and General	1,914,165	-	-	1,914,165
Fundraising	1,676,992	-	-	1,676,992
Total Supporting Services	<u>3,591,158</u>	<u>-</u>	<u>-</u>	<u>3,591,158</u>
Total Expenses	<u>16,027,558</u>	<u>-</u>	<u>-</u>	<u>16,027,558</u>
CHANGES IN NET ASSETS	(913,459)	954,665	142,752	183,958
NET ASSETS - BEGINNING OF YEAR	<u>1,960,006</u>	<u>10,829,676</u>	<u>4,248,600</u>	<u>17,038,282</u>
NET ASSETS - END OF YEAR	<u>\$ 1,046,547</u>	<u>\$ 11,784,341</u>	<u>\$ 4,391,352</u>	<u>\$ 17,222,240</u>

Epilepsy Research Foundation			Consolidated			
Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ -	\$ 1,636,592	\$ 1,636,592	\$ 4,878,632	\$ 7,009,913	\$ 31,296	\$ 11,919,841
-	-	-	4,026,111	-	-	4,026,111
-	-	-	579,594	-	-	579,594
-	-	-	165,828	-	-	165,828
-	-	-	350,650	-	-	350,650
-	-	-	198,141	491,826	-	689,967
-	-	-	48,265	227,647	-	275,912
-	-	-	(29,495)	304	111,456	82,265
-	-	-	-	(242,060)	-	(242,060)
515,000	(515,000)	-	5,411,373	(5,411,373)	-	-
515,000	1,121,592	1,636,592	15,629,099	2,076,257	142,752	17,848,108
515,000	-	515,000	3,721,991	-	-	3,721,991
-	-	-	3,142,890	-	-	3,142,890
-	-	-	84,224	-	-	84,224
-	-	-	4,797,791	-	-	4,797,791
-	-	-	1,204,505	-	-	1,204,505
515,000	-	515,000	12,951,400	-	-	12,951,400
-	-	-	1,914,165	-	-	1,914,165
-	-	-	1,676,992	-	-	1,676,992
-	-	-	3,591,158	-	-	3,591,158
515,000	-	515,000	16,542,558	-	-	16,542,558
-	1,121,592	1,121,592	(913,459)	2,076,257	142,752	1,305,550
-	1,421,347	1,421,347	1,960,006	12,251,023	4,248,600	18,459,629
\$ -	\$ 2,542,939	\$ 2,542,939	\$ 1,046,547	\$ 14,327,280	\$ 4,391,352	\$ 19,765,179

**EPILEPSY FOUNDATION AND
EPILEPSY RESEARCH FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

	Epilepsy Foundation			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE				
Contributions	\$ 4,910,272	\$ 5,522,549	\$ 10,000	\$ 10,442,821
Government Grants	4,486,102	-	-	4,486,102
Affiliate Dues	625,645	-	-	625,645
Sales of Materials, Net of Direct Cost of \$74,403	144,282	-	-	144,282
Special Events, Net of Direct Cost of \$221,950	331,874	-	-	331,874
Investment Income	175,689	438,024	-	613,713
Other	57,517	139,907	-	197,424
Change in Value of Split Interest Agreements	(19,321)	6,340	52,478	39,497
Provision for Uncollectible Pledges	-	(250,000)	-	(250,000)
Net Assets Released from Restrictions	6,135,538	(6,135,538)	-	-
Total Revenue	<u>16,847,598</u>	<u>(278,718)</u>	<u>62,478</u>	<u>16,631,358</u>
EXPENSES				
Program Services				
Research	2,609,414	-	-	2,609,414
Public Health Education	2,960,760	-	-	2,960,760
Professional Education and Training	123,071	-	-	123,071
Community Services	5,354,255	-	-	5,354,255
Patient Services	1,380,613	-	-	1,380,613
Total Program Services	<u>12,428,113</u>	<u>-</u>	<u>-</u>	<u>12,428,113</u>
Supporting Services				
Management and General	1,747,078	-	-	1,747,078
Fundraising	1,693,732	-	-	1,693,732
Total Supporting Services	<u>3,440,810</u>	<u>-</u>	<u>-</u>	<u>3,440,810</u>
Total Expenses	<u>15,868,923</u>	<u>-</u>	<u>-</u>	<u>15,868,923</u>
CHANGES IN NET ASSETS	978,675	(278,718)	62,478	762,435
NET ASSETS - BEGINNING OF YEAR	<u>981,331</u>	<u>11,108,394</u>	<u>4,186,122</u>	<u>16,275,847</u>
NET ASSETS - END OF YEAR	<u>\$ 1,960,006</u>	<u>\$ 10,829,676</u>	<u>\$ 4,248,600</u>	<u>\$ 17,038,282</u>

Epilepsy Research Foundation			Consolidated			
Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ -	\$ 714,463	\$ 714,463	\$ 4,910,272	\$ 6,237,012	\$ 10,000	\$ 11,157,284
-	-	-	4,486,102	-	-	4,486,102
-	-	-	625,645	-	-	625,645
-	-	-	144,282	-	-	144,282
-	-	-	331,874	-	-	331,874
-	-	-	175,689	438,024	-	613,713
-	-	-	57,517	139,907	-	197,424
-	-	-	(19,321)	6,340	52,478	39,497
-	-	-	-	(250,000)	-	(250,000)
769,000	(769,000)	-	6,904,538	(6,904,538)	-	-
769,000	(54,537)	714,463	17,616,598	(333,255)	62,478	17,345,821
769,000	-	769,000	3,378,414	-	-	3,378,414
-	-	-	2,960,760	-	-	2,960,760
-	-	-	123,071	-	-	123,071
-	-	-	5,354,255	-	-	5,354,255
-	-	-	1,380,613	-	-	1,380,613
769,000	-	769,000	13,197,113	-	-	13,197,113
-	-	-	1,747,078	-	-	1,747,078
-	-	-	1,693,732	-	-	1,693,732
-	-	-	3,440,810	-	-	3,440,810
769,000	-	769,000	16,637,923	-	-	16,637,923
-	(54,537)	(54,537)	978,675	(333,255)	62,478	707,898
-	1,475,884	1,475,884	981,331	12,584,278	4,186,122	17,751,731
\$ -	\$ 1,421,347	\$ 1,421,347	\$ 1,960,006	\$ 12,251,023	\$ 4,248,600	\$ 18,459,629