

EPILEPSY FOUNDATION OF TEXAS
(A NONPROFIT ORGANIZATION)

FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

GAINER DONNELLY & DESROCHES

EPILEPSY FOUNDATION OF TEXAS
(A NONPROFIT ORGANIZATION)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Epilepsy Foundation of Texas
Houston, Texas

We have audited the accompanying statements of financial position of Epilepsy Foundation of Texas (the "Foundation") as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Epilepsy Foundation of Texas as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2011, on our consideration of Epilepsy Foundation of Texas'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our 2010 audit was performed for the purpose of forming an opinion on the 2010 basic financial statements of Epilepsy Foundation of Texas taken as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Texas Single Audit Circular*, and is not a required part of the 2010 basic financial statements. Such information has been subjected to the auditing procedures applied in the 2010 audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2010 basic financial statements taken as a whole.

Gainer Donnelly & Desroches LLP

July 13, 2011

EPILEPSY FOUNDATION OF TEXAS
(A NONPROFIT ORGANIZATION)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

ASSETS

| | 2010 | 2009 |
|--|-------------------|-------------------|
| CURRENT ASSETS: | | |
| Cash and Cash Equivalents | \$ 120,101 | \$ 47,261 |
| Grants and Contributions Receivable, Net | 138,406 | 170,310 |
| Unconditional Promises to Give, Net | 900 | 16,392 |
| Prepaid Expenses | 3,061 | 10,716 |
| Total Current Assets | 262,468 | 244,679 |
| FURNITURE AND EQUIPMENT, NET | 446 | 1,968 |
| OTHER ASSETS: | | |
| Cash and Cash Equivalents, Restricted for Endowments | 42,225 | - |
| Investments | 131,628 | 210,810 |
| Unconditional Promises to Give, Net | 1,534 | 2,209 |
| Security Deposit | 3,249 | 3,249 |
| Total Other Assets | 178,636 | 216,268 |
| TOTAL ASSETS | \$ 441,550 | \$ 462,915 |

LIABILITIES AND NET ASSETS

| | | |
|--|-------------------|-------------------|
| CURRENT LIABILITIES: | | |
| Accounts Payable and Accrued Liabilities | \$ 47,107 | \$ 59,151 |
| Deferred Revenue | 13,859 | 7,677 |
| Total Current Liabilities | 60,966 | 66,828 |
| NET ASSETS: | | |
| Unrestricted | | |
| Board Designated Funds | 61,250 | 61,250 |
| Undesignated Funds | 136,499 | 135,277 |
| Temporarily Restricted | 140,610 | 115,458 |
| Permanently Restricted | 42,225 | 84,102 |
| Total Net Assets | 380,584 | 396,087 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 441,550 | \$ 462,915 |

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

EPILEPSY FOUNDATION OF TEXAS
(A NONPROFIT ORGANIZATION)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| REVENUE: | | | | |
| Public Support: | | | | |
| Contributions | \$ 106,106 | \$ 4,940 | \$ - | \$ 111,046 |
| Fundraising Events | 940,711 | - | - | 940,711 |
| Less: Cost of Direct | | | | |
| Benefits to Donors | (203,490) | - | - | (203,490) |
| Corporate Grants | 59,419 | 4,200 | - | 63,619 |
| Foundation Grants | 8,150 | 109,130 | - | 117,280 |
| Memorial/Trusts | 7,064 | - | - | 7,064 |
| Combined Campaigns | 14,555 | - | - | 14,555 |
| Total Public Support | <u>932,515</u> | <u>118,270</u> | <u>-</u> | <u>1,050,785</u> |
| Other Revenue: | | | | |
| Governmental Agencies | 553,975 | - | - | 553,975 |
| Program Fees | 17,227 | - | - | 17,227 |
| Interest Income | 839 | 153 | - | 992 |
| Total Other Revenue | <u>572,041</u> | <u>153</u> | <u>-</u> | <u>572,194</u> |
| TOTAL REVENUE | <u>1,504,556</u> | <u>118,423</u> | <u>-</u> | <u>1,622,979</u> |
| NET ASSETS RELEASED FROM RESTRICTIONS | <u>138,873</u> | <u>(96,996)</u> | <u>(41,877)</u> | <u>-</u> |
| EXPENSES: | | | | |
| Program Services: | | | | |
| Children's Services | 99,831 | - | - | 99,831 |
| Education Services | 240,626 | - | - | 240,626 |
| Employment Services | 79,354 | - | - | 79,354 |
| Patient Services | 1,094,577 | - | - | 1,094,577 |
| Total Program Services | <u>\$ 1,514,388</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,514,388</u> |

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

EPILEPSY FOUNDATION OF TEXAS
(A NONPROFIT ORGANIZATION)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2010

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Support Services: | | | | |
| Management and | | | | |
| General | \$ 61,436 | \$ - | \$ - | \$ 61,436 |
| Fundraising | <u>67,220</u> | <u>-</u> | <u>-</u> | <u>67,220</u> |
| Total Support Services | <u>128,656</u> | <u>-</u> | <u>-</u> | <u>128,656</u> |
| TOTAL EXPENSES | <u>1,643,044</u> | <u>-</u> | <u>-</u> | <u>1,643,044</u> |
| NET REALIZED AND UNREALIZED GAINS ON INVESTMENTS | <u>837</u> | <u>3,725</u> | <u>-</u> | <u>4,562</u> |
| CHANGES IN NET ASSETS | 1,222 | 25,152 | (41,877) | (15,503) |
| NET ASSETS AT BEGINNING OF YEAR | <u>196,527</u> | <u>115,458</u> | <u>84,102</u> | <u>396,087</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 197,749</u> | <u>\$ 140,610</u> | <u>\$ 42,225</u> | <u>\$ 380,584</u> |

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

EPILEPSY FOUNDATION OF TEXAS
(A NONPROFIT ORGANIZATION)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|--------------|
| REVENUE: | | | | |
| Public Support: | | | | |
| Contributions | \$ 63,197 | \$ 1,733 | \$ - | \$ 64,930 |
| Fundraising Events | 713,054 | - | - | 713,054 |
| Less: Cost of Direct | | | | |
| Benefits to Donors | (120,686) | - | - | (120,686) |
| Corporate Grants | - | 2,000 | - | 2,000 |
| Foundation Grants | 11,950 | 121,000 | - | 132,950 |
| Memorial/Trusts | 6,340 | - | 50 | 6,390 |
| Combined Campaigns | 26,280 | - | - | 26,280 |
| | 700,135 | 124,733 | 50 | 824,918 |
| Total Public Support | | | | |
| Other Revenue: | | | | |
| Governmental Agencies | 622,562 | - | - | 622,562 |
| Program Fees | 11,454 | - | - | 11,454 |
| Membership Dues | 50 | - | - | 50 |
| Interest Income | 936 | 567 | - | 1,503 |
| | 635,002 | 567 | - | 635,569 |
| Total Other Revenue | | | | |
| TOTAL REVENUE | 1,335,137 | 125,300 | 50 | 1,460,487 |
| NET ASSETS RELEASED FROM RESTRICTIONS | 191,022 | (191,022) | - | - |
| EXPENSES: | | | | |
| Program Services: | | | | |
| Children's Services | 72,538 | - | - | 72,538 |
| Education Services | 145,075 | - | - | 145,075 |
| Employment Services | 72,538 | - | - | 72,538 |
| Patient Services | 1,157,279 | - | - | 1,157,279 |
| | 1,447,430 | - | - | 1,447,430 |
| Total Program Services | \$ 1,447,430 | \$ - | \$ - | \$ 1,447,430 |

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

EPILEPSY FOUNDATION OF TEXAS
(A NONPROFIT ORGANIZATION)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Support Services: | | | | |
| Management and | | | | |
| General | \$ 54,403 | \$ - | \$ - | \$ 54,403 |
| Fundraising | <u>81,606</u> | <u>-</u> | <u>-</u> | <u>81,606</u> |
| Total Support | | | | |
| Services | <u>136,009</u> | <u>-</u> | <u>-</u> | <u>136,009</u> |
| TOTAL EXPENSES | <u>1,583,439</u> | <u>-</u> | <u>-</u> | <u>1,583,439</u> |
| NET REALIZED AND UNREALIZED GAINS ON INVESTMENTS | <u>17,890</u> | <u>24,367</u> | <u>-</u> | <u>42,257</u> |
| CHANGES IN NET ASSETS | (39,390) | (41,355) | 50 | (80,695) |
| NET ASSETS AT BEGINNING OF YEAR | <u>235,917</u> | <u>156,813</u> | <u>84,052</u> | <u>476,782</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 196,527</u> | <u>\$ 115,458</u> | <u>\$ 84,102</u> | <u>\$ 396,087</u> |

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

EPILEPSY FOUNDATION OF TEXAS
(A NONPROFIT ORGANIZATION)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

| | Program Services | | | | | Supporting Services | | | Total |
|--|------------------------|-----------------------|------------------------|---------------------|---------------------|------------------------------|------------------|-------------------|---------------------|
| | Children's Services | Education Services | Employment Services | Patient Services | Subtotal | Management and General | Fund- raising | Subtotal | |
| HOUSTON AND DALLAS/FORT WORTH FUNCTIONAL EXPENSES: | | | | | | | | | |
| Salaries | \$ 39,910 | \$ 96,202 | \$ 31,726 | \$ 194,452 | \$ 362,290 | \$ 24,562 | \$ 22,515 | \$ 47,077 | \$ 409,367 |
| Benefits and Payroll Expenses | 7,154 | 17,243 | 5,686 | 34,852 | 64,935 | 4,402 | 4,036 | 8,438 | 73,373 |
| Total Salaries and Related Expenses | 47,064 | 113,445 | 37,412 | 229,304 | 427,225 | 28,964 | 26,551 | 55,515 | 482,740 |
| Conferences, Convention and Meetings | 1,334 | 3,215 | 1,060 | 6,498 | 12,107 | 821 | 752 | 1,573 | 13,680 |
| Contract Labor | 4,518 | 10,889 | 3,591 | 22,011 | 41,009 | 2,780 | 2,549 | 5,329 | 46,338 |
| Fundraising Expenses | - | - | - | - | - | - | 10,901 | 10,901 | 10,901 |
| Insurance | 638 | 1,537 | 507 | 3,107 | 5,789 | 392 | 360 | 752 | 6,541 |
| Miscellaneous | 57 | 138 | 46 | 280 | 521 | 35 | 35 | 70 | 591 |
| Office Rent | 5,989 | 14,436 | 4,761 | 29,179 | 54,365 | 3,686 | 3,379 | 7,065 | 61,430 |
| Office Supplies | 1,106 | 2,666 | 879 | 5,388 | 10,039 | 681 | 624 | 1,305 | 11,344 |
| Postage and Shipping | 680 | 1,640 | 541 | 3,315 | 6,176 | 419 | 384 | 803 | 6,979 |
| Printing and Publications | 906 | 2,183 | 720 | 4,412 | 8,221 | 557 | 511 | 1,068 | 9,289 |
| Professional Fees | 1,045 | 2,518 | 830 | 5,090 | 9,483 | 643 | 589 | 1,232 | 10,715 |
| Program Activities | 23,142 | 55,778 | 18,395 | 112,742 | 210,057 | 14,241 | 13,054 | 27,295 | 237,352 |
| Rental, Repairs and Maintenance | 1,565 | 3,773 | 1,244 | 7,626 | 14,208 | 963 | 883 | 1,846 | 16,054 |
| Service Charges | 3,194 | 7,699 | 2,539 | 15,562 | 28,994 | 1,966 | 1,802 | 3,768 | 32,762 |
| Telephone | 1,788 | 4,309 | 1,421 | 8,709 | 16,227 | 1,100 | 1,008 | 2,108 | 18,335 |
| Travel | 1,534 | 3,697 | 1,219 | 7,472 | 13,922 | 944 | 865 | 1,809 | 15,731 |
| Total Houston and Dallas/Fort Worth Functional Expenses | 94,560 | 227,923 | 75,165 | 460,695 | 858,343 | 58,192 | 64,247 | 122,439 | 980,782 |
| CLINICS FUNCTIONAL EXPENSES: | | | | | | | | | |
| Salaries | - | - | - | 183,859 | 183,859 | - | - | - | 183,859 |
| Benefits and Payroll Expenses | - | - | - | 44,287 | 44,287 | - | - | - | 44,287 |
| Total Salaries and Related Expenses | - | - | - | 228,146 | 228,146 | - | - | - | 228,146 |
| Miscellaneous Expenses | - | - | - | 17,231 | 17,231 | - | - | - | 17,231 |
| Office Rent | - | - | - | 30,082 | 30,082 | - | - | - | 30,082 |
| Office Supplies | - | - | - | 11,871 | 11,871 | - | - | - | 11,871 |
| Patient Services | - | - | - | 249,632 | 249,632 | - | - | - | 249,632 |
| Postage and Shipping | - | - | - | 30,679 | 30,679 | - | - | - | 30,679 |
| Printing and Publications | - | - | - | 900 | 900 | - | - | - | 900 |
| Rental, Repairs and Maintenance | - | - | - | 5,131 | 5,131 | - | - | - | 5,131 |
| Telephone | - | - | - | 2,565 | 2,565 | - | - | - | 2,565 |
| Travel | - | - | - | 31,966 | 31,966 | - | - | - | 31,966 |
| Total Clinics Functional Expenses | - | - | - | 608,203 | 608,203 | - | - | - | 608,203 |
| DEPRECIATION EXPENSE | 91 | 219 | 72 | 445 | 827 | 56 | 51 | 107 | 934 |
| BAD DEBT EXPENSE | 5,180 | 12,484 | 4,117 | 25,234 | 47,015 | 3,188 | 2,922 | 6,110 | 53,125 |
| TOTAL EXPENSES | \$ 99,831 | \$ 240,626 | \$ 79,354 | \$ 1,094,577 | \$ 1,514,388 | \$ 61,436 | \$ 67,220 | \$ 128,656 | \$ 1,643,044 |

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

EPILEPSY FOUNDATION OF TEXAS
(A NONPROFIT ORGANIZATION)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009

| | Program Services | | | | | Supporting Services | | | Total |
|--|------------------------|-----------------------|------------------------|---------------------|---------------------|------------------------------|------------------|-------------------|---------------------|
| | Children's Services | Education Services | Employment Services | Patient Services | Subtotal | Management and General | Fund- raising | Subtotal | |
| HOUSTON AND DALLAS/FORT WORTH FUNCTIONAL EXPENSES: | | | | | | | | | |
| Salaries | \$ 28,296 | \$ 56,593 | \$ 28,296 | \$ 187,464 | \$ 300,649 | \$ 21,222 | \$ 31,833 | \$ 53,055 | \$ 353,704 |
| Benefits and Payroll Expenses | 5,040 | 10,080 | 5,040 | 33,389 | 53,549 | 3,780 | 5,670 | 9,450 | 62,999 |
| Total Salaries and Related Expenses | 33,336 | 66,673 | 33,336 | 220,853 | 354,198 | 25,002 | 37,503 | 62,505 | 416,703 |
| Conferences, Convention and Meetings | 1,146 | 2,293 | 1,146 | 7,594 | 12,179 | 860 | 1,290 | 2,150 | 14,329 |
| Contract Labor | 79 | 158 | 79 | 525 | 841 | 59 | 89 | 148 | 989 |
| Dues, Subscriptions and Ads | 6 | 12 | 6 | 40 | 64 | 5 | 7 | 12 | 76 |
| Fundraising Expenses | 1,831 | 3,661 | 1,831 | 12,129 | 19,452 | 1,373 | 2,060 | 3,433 | 22,885 |
| Insurance | 512 | 1,024 | 512 | 3,391 | 5,439 | 384 | 576 | 960 | 6,399 |
| Office Rent | 4,808 | 9,616 | 4,808 | 31,852 | 51,084 | 3,606 | 5,409 | 9,015 | 60,099 |
| Office Supplies | 465 | 929 | 465 | 3,078 | 4,937 | 348 | 523 | 871 | 5,808 |
| Payment to National | 1,079 | 2,158 | 1,079 | 7,150 | 11,466 | 809 | 1,214 | 2,023 | 13,489 |
| Postage and Shipping | 553 | 1,106 | 553 | 3,663 | 5,875 | 415 | 622 | 1,037 | 6,912 |
| Printing and Publications | 1,287 | 2,574 | 1,287 | 8,526 | 13,674 | 965 | 1,448 | 2,413 | 16,087 |
| Professional Fees | 1,132 | 2,264 | 1,132 | 7,500 | 12,028 | 849 | 1,274 | 2,123 | 14,151 |
| Program Activities | 21,156 | 42,312 | 21,156 | 140,160 | 224,784 | 15,867 | 23,801 | 39,668 | 264,452 |
| Rental, Repairs and Maintenance | 1,036 | 2,071 | 1,036 | 6,860 | 11,003 | 777 | 1,165 | 1,942 | 12,945 |
| Service Charges | 1,297 | 2,594 | 1,297 | 8,591 | 13,779 | 973 | 1,459 | 2,432 | 16,211 |
| Telephone | 1,703 | 3,406 | 1,703 | 11,284 | 18,096 | 1,277 | 1,916 | 3,193 | 21,289 |
| Travel | 1,002 | 2,004 | 1,002 | 6,637 | 10,645 | 751 | 1,127 | 1,878 | 12,523 |
| Total Houston and Dallas/Fort Worth Functional Expenses | 72,428 | 144,855 | 72,428 | 479,833 | 769,544 | 54,320 | 81,483 | 135,803 | 905,347 |
| CLINICS FUNCTIONAL EXPENSES: | | | | | | | | | |
| Salaries | - | - | - | 206,550 | 206,550 | - | - | - | 206,550 |
| Benefits and Payroll Expenses | - | - | - | 45,628 | 45,628 | - | - | - | 45,628 |
| Total Salaries and Related Expenses | - | - | - | 252,178 | 252,178 | - | - | - | 252,178 |
| Miscellaneous Expenses | - | - | - | 18,473 | 18,473 | - | - | - | 18,473 |
| Office Rent | - | - | - | 28,251 | 28,251 | - | - | - | 28,251 |
| Office Supplies | - | - | - | 10,772 | 10,772 | - | - | - | 10,772 |
| Patient Services | - | - | - | 313,865 | 313,865 | - | - | - | 313,865 |
| Postage and Shipping | - | - | - | 21,946 | 21,946 | - | - | - | 21,946 |
| Printing and Publications | - | - | - | 108 | 108 | - | - | - | 108 |
| Rental, Repairs and Maintenance | - | - | - | 5,854 | 5,854 | - | - | - | 5,854 |
| Telephone | - | - | - | 3,750 | 3,750 | - | - | - | 3,750 |
| Travel | - | - | - | 21,519 | 21,519 | - | - | - | 21,519 |
| Total Clinics Functional Expenses | - | - | - | 676,716 | 676,716 | - | - | - | 676,716 |
| DEPRECIATION EXPENSE | 226 | 452 | 226 | 1,499 | 2,403 | 170 | 254 | 424 | 2,827 |
| BAD DEBT EXPENSE | (116) | (232) | (116) | (769) | (1,233) | (87) | (131) | (218) | (1,451) |
| TOTAL EXPENSES | \$ 72,538 | \$ 145,075 | \$ 72,538 | \$ 1,157,279 | \$ 1,447,430 | \$ 54,403 | \$ 81,606 | \$ 136,009 | \$ 1,583,439 |

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

EPILEPSY FOUNDATION OF TEXAS
(A NONPROFIT ORGANIZATION)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

| | 2010 | 2009 |
|--|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in Net Assets | \$ (15,503) | \$ (80,695) |
| Adjustments to Reconcile Changes in Net Assets to Net Cash | | |
| Provided by (Used in) Operating Activities: | | |
| Permanently Restricted Contributions | - | (50) |
| Net Realized and Unrealized Gains on Investments | (4,562) | (42,257) |
| Bad Debt Expense and Present Value Adjustment | 53,125 | (1,451) |
| Depreciation | 934 | 2,827 |
| Loss on Disposition of Furniture and Equipment | 588 | - |
| Changes in Operating Assets and Liabilities: | | |
| Grants and Contributions Receivable | 31,904 | 83,862 |
| Unconditional Promises to Give | (36,958) | 21,467 |
| Prepaid Expenses | 7,655 | 215 |
| Accounts Payable and Accrued Liabilities | (12,044) | 17,015 |
| Deferred Revenue | 6,182 | (82,332) |
| | 31,321 | (81,399) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from Sales of Investments | 83,744 | 334 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Permanently Restricted Contributions | - | 50 |
| | 115,065 | (81,015) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | | |
| | 47,261 | 128,276 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 47,261 | 128,276 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 162,326 | \$ 47,261 |
| Reconciliation of Total Cash to Cash and Cash Equivalents | | |
| in the Statements of Financial Position: | | |
| Cash and Cash Equivalents | \$ 120,101 | \$ 47,261 |
| Cash and Cash Equivalents Restricted for Endowments | 42,225 | - |
| | \$ 162,326 | \$ 47,261 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash Paid for Interest | \$ 425 | \$ 68 |

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

EPILEPSY FOUNDATION OF TEXAS
(A NON-PROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The Epilepsy Foundation of Texas (the “Foundation”) was originally organized on March 28, 1980. The Foundation is an affiliate of the Epilepsy Foundation National Office and works to ensure that people with seizures are able to participate in all life experiences, and to prevent, control and cure epilepsy through research, education, advocacy, and services. Key services include camping and recreational programs, education, information and referral, employment assistance, and medical services. The Foundation provides services in the 102 counties of eastern Texas and offers telemedicine clinics in Beaumont, Houston, Grapevine, Lufkin, and Tyler. This program is funded by the Department of State Health Services (Texas) (see Note 11). The Foundation, with offices in Houston and Dallas, is supported primarily through donor contributions, special events and corporate, state and foundation grants.

Recent awards from the Epilepsy Foundation National Office include Affiliate of the Year, Executive Director of the Year, Volunteer of the Year, and Employee of the Year. The Foundation has achieved the Standard of Excellence from Epilepsy Foundation National Office. This achievement means the Foundation no longer has to pay affiliate dues to the national office.

On January 1, 2011, Epilepsy Foundation of Texas expanded its service area to include an additional 79 counties in west and northwest Texas, encompassing the Amarillo, Lubbock, El Paso, and Midland/Odessa areas.

Financial Statement Presentation

The Foundation’s financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Cash Equivalents

For the purposes of the statements of cash flows, the Foundation considers all unrestricted highly liquid investments with initial maturities of three months or less to be cash equivalents.

Grants and Contributions Receivable and Unconditional Promises to Give

Grants and contributions receivable and unconditional promises to give are recorded when the Foundation receives notification of the grant, contribution or promise to give. Amounts that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material.

As of December 31, 2010 and 2009, an allowance of \$1,950 and \$3,425, respectively, was established for all accounts which were considered uncollectible for grants and contributions receivable as well as promises to give.

EPILEPSY FOUNDATION OF TEXAS
(A NON-PROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments

Investments in marketable securities are recorded at fair value. Investment return includes interest, dividends, and realized and unrealized gains or losses. Investment return is reported in the statements of activities and changes in net assets as an increase in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets until expended in accordance with the donor-imposed restrictions.

Furniture and Equipment

Furniture and equipment are recorded at cost or, in the case of donated assets, the estimated fair value at the date of the gift. The Foundation capitalizes all expenses for furniture and equipment in excess of \$5,000. Depreciation of the furniture and equipment is based on the straight-line method over three to seven years.

Routine maintenance, repair, renewal and replacement costs are charged against operations in the year incurred. Expenditures, which materially increase values or extend useful lives of property and equipment, are capitalized.

Contributions

The Foundation's contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Support that is restricted by the donor and is to be used in future periods or for specific purposes is reported as an increase in temporarily restricted or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are released to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Donated Assets

The Foundation recognizes donated assets received, including contributions and gifts of furniture and equipment, as revenue at fair value when an unconditional commitment from the donor is received. The related expense is recorded as the item is used or when the service is provided. No donated assets were recognized for the years ended December 31, 2010 and 2009.

Donated Services

Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those services, and would typically be purchased if not provided by donation.

A number of unpaid volunteers have made significant contributions of their time to help the Foundation in a variety of program activities, office and clerical functions and fundraising events. The fair value of this contributed time has not been determined and is not reflected in the accompanying financial statements because the services do not meet the criteria for revenue recognition under generally accepted accounting principles.

EPILEPSY FOUNDATION OF TEXAS
(A NON-PROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Tax

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for federal income tax has been made in these financial statements.

The Foundation follows guidance that clarifies the accounting for uncertainty in income taxes recognized for financial statement reporting purposes as applied to nonprofit organizations. Based on its evaluation, the Foundation has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. The Foundation's evaluation was performed for the tax periods ended December 31, 2006 through December 31, 2010, for U.S. Federal tax. The latter three tax years remain subject to examination by major tax jurisdictions as of December 31, 2010.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs of the Foundation's clinics, and Houston and Dallas/Fort Worth operations, as reflected in the statements of functional expenses, have been allocated among the programs and supporting services benefited.

Use of Estimates

The Foundation uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used. Estimates that have the most impact on financial position and results of operations primarily relate to the collectability of contributions receivable and unconditional promises to give and the allocation of expenses among functional areas. Management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Fair Value Considerations

The Foundation uses fair value to measure financial and certain nonfinancial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy established and prioritized fair value measurements into three levels based on the nature of the inputs. The hierarchy gives the highest priority to inputs based on market data from independent sources (observable inputs-Level 1) and the lowest priority to a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs-Level 3).

The fair value option allows entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value that are not otherwise required to be measured at fair value. If an organization elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. The Foundation did not elect the fair value option for the measurement of any eligible assets or liabilities.

The Foundation's financial instruments (primarily cash and cash equivalents, receivables, investments and accounts payable) are carried in the financial statements at amounts that reasonably approximate fair value.

EPILEPSY FOUNDATION OF TEXAS
(A NON-PROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

The Foundation has evaluated subsequent events through the date the financial statements were available for issuance on July 13, 2011. No matters were identified affecting the accompanying financial statements that have not already been disclosed elsewhere in these financial statements.

NOTE 2 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash investments. The Foundation places cash investments in a financial institution or in working capital management accounts with a financial services firm. The cash balances in the financial institution and in the working capital management accounts did not exceed the federally insured limit for the years ended December 31, 2010 and 2009.

Funds received through government grants are a significant source of revenue upon which the Foundation depends to carry out its operations. A decrease in such funding would have a direct effect on program services provided by the Foundation.

NOTE 3 – CASH RESERVES

The Board of Directors of the Foundation strives to maintain reserves to meet a portion of the following year's program expenses. Therefore, the Foundation's financial statements at the end of each calendar year may reflect excess cash to cover a portion of the following year's program expenses.

NOTE 4 – GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consist of the following at December 31, 2010 and 2009:

| | <u>2010</u> | <u>2009</u> |
|---|-------------------|-------------------|
| Contributions Receivable | \$ 60,714 | \$ 50,824 |
| Miscellaneous | 369 | - |
| Department of State Health Services (Texas) | 39,823 | 100,152 |
| Epilepsy Foundation National Office | <u>37,500</u> | <u>19,334</u> |
| Net Grants and Contributions Receivable | <u>\$ 138,406</u> | <u>\$ 170,310</u> |

EPILEPSY FOUNDATION OF TEXAS
(A NON-PROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – PROMISES TO GIVE

Unconditional promises to give at December 31, 2010 and 2009 are as follows:

| | 2010 | 2009 |
|--|----------|-----------|
| Receivable in Less than One Year | \$ 2,850 | \$ 19,817 |
| Receivable in One to Five Years | 4,050 | 4,725 |
| Total Unconditional Promises to Give | 6,900 | 24,542 |
| Less: Discounts to Net Present Value | (2,516) | (2,516) |
| Less: Allowance for Uncollectible Promises | (1,950) | (3,425) |
| Net Unconditional Promises to Give | \$ 2,434 | \$ 18,601 |

The fair value of long-term unconditional promises to give is estimated by discounting the future cash flows using a current risk rate of return based on the prime rate at December 31, 2010 and 2009. The discount rate used on long-term promises to give, in both 2010 and 2009, was 3.25%.

NOTE 6 – FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at December 31, 2010 and 2009:

| | 2010 | 2009 |
|--------------------------------|----------|----------|
| Furniture | \$ 5,934 | \$ 6,758 |
| Equipment | 60,287 | 60,287 |
| | 66,221 | 67,045 |
| Less: Accumulated Depreciation | (65,775) | (65,077) |
| Net Furniture and Equipment | \$ 446 | \$ 1,968 |

Depreciation expense totaled \$934 and \$2,827 for the years ended December 31, 2010 and 2009, respectively.

NOTE 7 – FAIR VALUE MEASUREMENTS

Fair value is defined 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 for the asset or liability in an orderly transaction between market participants on the measurement date. The three tier fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

EPILEPSY FOUNDATION OF TEXAS
(A NON-PROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – FAIR VALUE MEASUREMENTS – CONTINUED

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than Level 1 inputs that are either directly or indirectly observable such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or other inputs not directly observable, but derived principally from, or corroborated by, observable market data.
- Level 3: Unobservable inputs that are supported by little or no market activity.

The value of assets measured at fair value on a recurring basis is as follows:

| | Quoted Market Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total |
|--------------------|--|---|-------------------------------------|-------------------|
| December 31, 2010: | | | | |
| Alternative Assets | \$ - | \$ - | \$ 23,930 | \$ 23,930 |
| Investments | <u>107,698</u> | <u>-</u> | <u>-</u> | <u>107,698</u> |
| Total | <u>\$ 107,698</u> | <u>\$ -</u> | <u>\$ 23,930</u> | <u>\$ 131,628</u> |
| December 31, 2009: | | | | |
| Alternative Assets | \$ - | \$ 46,378 | \$ - | \$ 46,378 |
| Investments | <u>164,432</u> | <u>-</u> | <u>-</u> | <u>164,432</u> |
| Total | <u>\$ 164,432</u> | <u>\$ 46,378</u> | <u>\$ -</u> | <u>\$ 210,810</u> |

Assets measured at fair value using significant unobservable inputs (Level 3):

| | |
|--|------------------|
| Balance at December 31, 2009 | \$ - |
| Transfers In | 46,378 |
| Total Gains/Losses (Realized/Unrealized) | <u>(22,448)</u> |
| Balance at December 31, 2010 | <u>\$ 23,930</u> |

During the year ended December 31, 2010, the Foundation transferred alternative assets in the amount of \$46,378 from Level 2 to Level 3 due to the change in the composition of the underlying assets that make up the investment vehicle. The Foundation's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer.

The Foundation holds certain investments with the Greater Houston Community Foundation to be held for the exclusive benefit of the Foundation. The Foundation retains all rights to these funds and pays an administrative fee of .58% of 1% (58 basis points) per quarter. Level 1 investments consist of equity securities, fixed income securities, real assets, and a money market account. Level 2 and Level 3 investments consist of alternative investment vehicles such as, private equity funds, real estate funds, venture capital funds, commodity funds and funds of funds. All investments are included in the accompanying statements of financial position as investments.

EPILEPSY FOUNDATION OF TEXAS
(A NON-PROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – FAIR VALUE MEASUREMENTS – CONTINUED

The following summarizes the investment return in the statement of activities and changes in net assets:

| | 2010 | 2009 |
|---|----------|-----------|
| Interest Income | \$ 992 | \$ 1,503 |
| Net Realized and Unrealized Gain (Loss) | 4,562 | 42,257 |
| Investment Return, Net | \$ 5,554 | \$ 43,760 |

Investments are exposed to various risks such as interest rate risk, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position and the statements of activities and changes in net assets.

NOTE 8 – LINE OF CREDIT

The Foundation has a credit facility with maximum unsecured borrowings up to \$75,000. Interest on any borrowings is payable to the bank at the current prime rate established by the bank. The line of credit matured on February 18, 2011 and was renewed at that time through February 12, 2012. At December 31, 2010 and 2009, there were no outstanding borrowings on the line of credit. During the year ended December 31, 2010 and 2009, the Foundation borrowed and repaid \$30,000 and \$10,000, respectively, on the line and paid interest totaling \$425 and \$68, respectively.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2010 and 2009:

| | 2010 | 2009 |
|--|------------|------------|
| Education Programs | \$ 45,500 | \$ 18,000 |
| Camping Programs | - | 5,000 |
| Camp Spike 'N' Wave | 30,000 | 30,000 |
| Various Programs | 20,000 | 25,000 |
| For Periods after December 31, Accumulated Undistributed Earnings on Endowment Funds | 4,000 | - |
| | 41,110 | 37,458 |
| Total | \$ 140,610 | \$ 115,458 |

EPILEPSY FOUNDATION OF TEXAS
(A NON-PROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – ENDOWMENTS

Interpretation of Relevant Law

The Foundation is subject to the *Texas Uniform Prudent Management of Institutional Funds Act* (the Act). The Carlisle Norwood Endowment Fund Trustees of the Foundation have interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts donated to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Foundation considers the following factors in making the determination to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the funds
- Purposes of the Foundation and the donor restricted endowment fund
- General economic conditions
- Possible effect of inflation and deflation
- Expected total return from income and the appreciation of investments
- Other resources of the Foundation
- Investment policies of the Endowment Fund

Return Objectives and Risk Parameters

The Epilepsy Foundation of Texas' Carlisle Norwood Endowment ("Endowment") is commingled for investment purposes with Board designated unrestricted net assets. These investments are with the Greater Houston Community Foundation. It was the Board of Directors' objective not to be involved in the day-to-day investing of funds and to rely on the expertise of the Greater Houston Community Foundation and their investment policy, objectives and guidelines. Under this policy, the endowment assets are invested in a manner to provide long-term growth of the assets for future needs without exposure to undue risk.

To eliminate exposure to undue risk during 2010, the Foundation segregated its temporarily and permanently restricted endowment funds from the board designated unrestricted funds by transferring the investments to cash in a separate financial institution. Subsequent to December 31, 2010, the Foundation transferred the temporarily restricted endowment funds back into the investments held at the Greater Houston Community Foundation.

Strategies Employed for Achieving Objectives

To satisfy its long-term growth objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Endowment fund consists of contributions to the Foundation designated by the donors of the fund and Board designated unrestricted funds plus appreciation and income. The Foundation targets an asset allocation that will achieve its long-term return objectives within prudent risk constraints.

EPILEPSY FOUNDATION OF TEXAS
(A NON-PROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – ENDOWMENTS – CONTINUED

Spending Policy and How the Investment Objectives Relate to Spending Policy

The objective of the Endowment is to sustain the Foundation in the future so the current policy is to build the Endowment until it reaches a point when income could be used to support the programs of the Foundation. Temporarily restricted earnings on Endowment funds may be invaded for specific purposes only by a two thirds majority vote of the Board of Directors. Permanently restricted contributions were contributed to the Foundation with no purpose restriction.

In previous years, the Board has designated excess cash reserves for future growth. All earnings have been designated by the Board until the Board releases the designation.

The following tables describe the Foundation's endowment net asset composition by type of fund and the changes in endowment net assets as of and for the years ended December 31, 2010 and 2009:

Endowment Net Asset Composition by Type of Fund

| | <u>2010</u> | <u>2009</u> |
|-----------------------------------|-------------------|-------------------|
| Board Designated Endowment Funds: | | |
| Unrestricted Net Assets | \$ 131,628 | \$ 89,249 |
| Donor Restricted Endowment Funds: | | |
| Temporarily Restricted | 41,110 | 37,459 |
| Permanently Restricted | <u>42,225</u> | <u>84,102</u> |
| Total Endowment Funds | \$ <u>214,963</u> | \$ <u>210,810</u> |

Changes in Endowment Net Assets for the Years Ended December 31, 2010 and 2009:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-------------------------------|-------------------------------|----------------|
| Endowment Net Assets, January 1, 2009 | \$ 71,522 | \$ 13,313 | \$ 84,052 | \$ 168,887 |
| Investment Return: | | | | |
| Investment Income | 416 | 568 | - | 984 |
| Net Appreciation (Realized and Unrealized) | <u>17,890</u> | <u>24,367</u> | <u>-</u> | <u>42,257</u> |
| Total Investment Return | 18,306 | 24,935 | - | 43,241 |
| Contributions | - | - | 50 | 50 |
| Other Changes - Fees Paid | <u>(579)</u> | <u>(789)</u> | <u>-</u> | <u>(1,368)</u> |
| Endowment Net Assets, December 31, 2009 | <u>89,249</u> | <u>37,459</u> | <u>84,102</u> | <u>210,810</u> |

EPILEPSY FOUNDATION OF TEXAS
(A NON-PROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – ENDOWMENTS – CONTINUED

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Endowment Net Assets, December 31, 2009 | \$ 89,249 | \$ 37,459 | \$ 84,102 | \$ 210,810 |
| Investment Return: | | | | |
| Investment Income | 700 | 153 | - | 853 |
| Net Appreciation (Realized and Unrealized) | <u>837</u> | <u>3,725</u> | - | <u>4,562</u> |
| Total Investment Return | 1,537 | 3,878 | - | 5,415 |
| Contributions | - | - | - | - |
| Restrictions Released | 41,877 | - | (41,877) | - |
| Other Changes - Fees Paid | <u>(1,035)</u> | <u>(227)</u> | - | <u>(1,262)</u> |
| Endowment Net Assets, December 31, 2010 | \$ <u>131,628</u> | \$ <u>41,110</u> | \$ <u>42,225</u> | \$ <u>214,963</u> |

NOTE 11 – DEPARTMENT OF STATE HEALTH SERVICES (TEXAS)

The Foundation entered into a contract with the Texas Department of State Health Services (DSHS) to fund its telemedicine program. The program provides medical services to patients through a video screening process performed by a nurse practitioner in Houston, Texas. The contract provides that the state reimburse allowable expenses of the program up to the contract amount.

Revenue provided by DSHS under this program totaled \$489,680 and \$552,355 for the years ended December 31, 2010 and 2009, respectively. This contract has been renewed through August 31, 2011.

NOTE 12 – SPECIAL EVENTS

Support and costs of direct benefits to donors related to special events for the years ended December 31, 2010 and 2009 totaled:

| <u>Fundraising Events</u> | <u>Support</u> | | <u>Cost of Direct Benefits to Donor</u> | |
|---------------------------|-------------------|-------------------|---|-------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Golf Tournament | \$ 51,875 | \$ 54,807 | \$ 29,110 | \$ 19,148 |
| Gala | 492,210 | 355,374 | 112,149 | 69,478 |
| Summer Stroll | 363,326 | 299,681 | 53,727 | 32,060 |
| Motorcycle | 7,200 | 3,192 | - | - |
| Raffle | <u>26,100</u> | - | <u>8,504</u> | - |
| Total | \$ <u>940,711</u> | \$ <u>713,054</u> | \$ <u>203,490</u> | \$ <u>120,686</u> |

EPILEPSY FOUNDATION OF TEXAS
(A NON-PROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

In accordance with accounting standards, the costs of direct benefits to donors are reported as a direct reduction from fundraising events revenue.

EPILEPSY FOUNDATION OF TEXAS
(A NON-PROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – RELATED PARTY TRANSACTIONS

The Foundation has an affiliation with the National Epilepsy Foundation. The Foundation receives grants from the national office.

During 2010 and 2009, the Foundation was awarded \$65,650 and \$64,400, of which \$37,500 and \$19,334 was receivable at December 31, 2010 and 2009, respectively. The Foundation paid \$13,490 for the year ended December 31, 2009 in fees to the national office. No fees were paid for the year ended December 31, 2010.

NOTE 14 – OPERATING LEASES

The Foundation leases office space and equipment in Houston under operating leases expiring in various years through 2015. Future minimum rental payments for the noncancelable leases are as follows:

| <u>Year Ending</u> <u>December 31,</u> | | |
|---|----|----------------|
| 2011 | \$ | 96,995 |
| 2012 | | 96,455 |
| 2013 | | 94,115 |
| 2014 | | 70,355 |
| 2015 | | <u>827</u> |
| Total | \$ | <u>358,747</u> |

Rental expense totaled \$91,512 and \$88,350 for the years ended December 31, 2010 and 2009, respectively.

NOTE 15 – DEFINED CONTRIBUTION PLAN

The Foundation maintains a 401(k) profit sharing plan under Section 401(a) of the Internal Revenue Code. Under the plan, eligible employees may contribute up to eighty-five percent of their salary but not to exceed the legal limit. The Foundation match is equal to one hundred percent of employee contributions up to three percent of participant compensation. Foundation contributions totaled \$13,725 and \$12,174 for the years ended December 31, 2010 and 2009, respectively.

SINGLE AUDIT

EPILEPSY FOUNDATION OF TEXAS
 (A NONPROFIT ORGANIZATION)
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2010

| <u>Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-through Grantor's I.D. Number</u> | <u>Grant Period</u> | <u>Program or Award Amount</u> | <u>Expenditures*</u> |
|--|------------------------------------|---|-------------------------|--|----------------------|
| STATE AWARDS: | | | | | |
| Texas Department of State Health Services | | | | | |
| Direct Funding - CHS Epilepsy Services | NA | 2010-033079 | 09/01/09 to 08/31/10 | \$ 567,818 | \$ 363,314 |
| Direct Funding - CHS Epilepsy Services | NA | 2011-035524 | 09/01/10 to 08/31/11 | <u>524,530</u> | <u>159,616</u> |
| Total Texas Department of State Health Services | | | | <u>1,092,348</u> | <u>522,930</u> |
| Texas Department of Assistive and Rehabilitative Services | | | | | |
| Direct Funding - Community Rehabilitative Program (CRP) Services | NA | 538-09-0001-0000000000271 | 12/01/08 to 11/30/10 | <u>134,502</u> | <u>64,295</u> |
| TOTAL STATE AWARDS | | | | <u>\$ 1,226,850</u> | <u>\$ 587,225</u> |

*Expenditures presented in this schedule are for the calendar year ended December 31, 2010 and not the entire grant period.

EPILEPSY FOUNDATION OF TEXAS
 (A NONPROFIT ORGANIZATION)
 NOTES TO THE SCHEDULE OF EXPENDITURES OF STATE AWARDS

NOTE 1 – BASIS FOR PRESENTATION

The accompanying schedule of expenditures of state awards includes the state grant activity of Epilepsy Foundation of Texas and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organization* and the *State of Texas Single Audit Circular*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – STATE ASSISTANCE RECONCILIATION

| | |
|--|-------------------|
| State Revenues: | |
| State Grants Included in Statement of Activities and Changes in Net Assets | \$ 553,975 |
| Reconciling Items: | |
| 2009 Advance of State Grant Funds Utilized in 2010 | 65,741 |
| 2010 Advance of State Grant Funds | <u>(32,491)</u> |
| Total Per Schedule of Expenditures of State Awards | <u>\$ 587,225</u> |

NOTE 3 – INSURANCE COVERAGE

The following schedule summarizes the amount of insurance coverage in effect per policy for the year ended December 31, 2010:

| | |
|------------------------|---------------------|
| Policy: | |
| Accident | \$ 50,000 |
| Commercial | 2,000,000 |
| Crime | 100,000 |
| Directors and Officers | 1,000,000 |
| Professional | 2,000,000 |
| Workers Compensation | <u>1,000,000</u> |
| | <u>\$ 6,150,000</u> |

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

To the Board of Directors
Epilepsy Foundation of Texas
Houston, Texas

We have audited the financial statements of Epilepsy Foundation of Texas (the "Foundation") as of and for the year ended December 31, 2010, and have issued our report thereon dated July 13, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Foundation's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of 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*.

Report on Internal Control
Page Two

This report is intended for the information and use of the Board of Directors, management and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Gainer Donnelly & Desroches LLP

July 13, 2011

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133 AND THE STATE OF TEXAS SINGLE AUDIT CIRCULAR

To the Board of Directors of
Epilepsy Foundation of Texas
Houston, Texas

Compliance

We have audited Epilepsy Foundation of Texas's (the "Foundation") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of the Foundation's major federal programs for the year ended December 31, 2010. The Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *State of Texas Single Audit Circular*. Those standards and OMB Circular A-133 and the *State of Texas Single Audit Circular*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Foundation's compliance with those requirements.

In our opinion, the Epilepsy Foundation of Texas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Foundation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *State of Texas Single Audit Circular*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

Internal Control Over Compliance – Continued

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, and state awarding agencies, the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Gainer Donnelly & Desroches LLP

July 13, 2011

EPILEPSY FOUNDATION OF TEXAS
 (A NON-PROFIT ORGANIZATION)
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2010

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant Deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

State Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditors’ report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 and State of Texas Single Audit Circular? _____ yes X no

Identification of major programs:

| <u>State - Contract Number</u> | <u>Name of State Program</u> |
|--------------------------------|------------------------------|
| N/A | CHS Epilepsy Services |

Dollar threshold used to distinguish between Type A and type B programs (Federal and State): \$300,000

Auditee qualified as low-risk state auditee? _____ yes X no

EPILEPSY FOUNDATION OF TEXAS
(A NON-PROFIT ORGANIZATION)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2010

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AND STATE AWARD FINDINGS AND QUESTIONED COSTS – MAJOR
FEDERAL AND STATE AWARD PROGRAMS AUDIT

None

SECTION IV – SCHEDULE OF PRIOR YEAR FINDINGS

None