

THE BRAIN FOUNDATION

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

**WITH INDEPENDENT AUDITOR'S
AUDIT REPORT**

**Ferguson's Accounting Services, Inc.
Certified Public Accountants
4200 Mayport Lane
Fairfax, VA 22033**

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Ferguson's Accounting Services, Inc.

Certified Public Accountants

Independent Auditor's Report

Board of Directors
The Brain Foundation
Centreville, VA

We have audited the accompanying statement of financial position of The Brain Foundation as of June 30, 2012 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of The Brain Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted the audit in accordance with audited 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 accompanying financial statements present fairly, in all material respects, the financial position of The Brain Foundation as of June 30, 2012 and the results of operations, changes in its net assets, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Ferguson's Accounting Services, Inc.
Ferguson's Accounting Services, Inc.

November 9, 2012

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The Brain Foundation
Statement of Financial Position
June 30, 2012

Assets

<u>Current assets</u>	
Cash and cash equivalents	\$ 131,371
VHDA escrow	<u>5,157</u>
Total current assets	136,528
<u>Fixed Assets</u>	
Real estate	2,269,225
Accumulated depreciation	<u>(226,112)</u>
Total fixed assets	2,043,113
Prepayments	<u>14,816</u>
Total assets	<u><u>2,194,457</u></u>

Liabilities and Net Assets

<u>Liabilities</u>	
<u>Current liabilities</u>	
Accounts payable	<u>3,127</u>
Total current liabilities	3,127
<u>Long term liabilities</u>	
Security deposits	4,655
Mortgages	<u>1,346,425</u>
Total long term liabilities	<u>1,351,080</u>
Total liabilities	<u>1,354,207</u>
<u>Net assets</u>	
Unrestricted	840,250
Temporarily restricted	0
Permanently restricted	<u>0</u>
Total net assets	<u>840,250</u>
Total liabilities and net assets	<u><u>\$ 2,194,457</u></u>

See Audit Report and Notes.

The Brain Foundation
Statement of Activities
For Fiscal Year Ended June 30, 2012

Revenues and support	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Contributions income	\$ 53,644	\$	\$ 53,644
Grants	20,721		20,721
Investment interest	122		122
Rental assistance	43,725		43,725
Rental income	70,059		70,059
Late fees	165		165
Total revenues and support	<u>188,436</u>	<u>0</u>	<u>188,436</u>
 Expenses			
Program services	193,280		193,280
Supporting services			
Management and general	5,616		5,616
Fundraising	0		0
Total supporting services	<u>5,616</u>	<u>0</u>	<u>5,616</u>
Total expenses	<u>198,896</u>	<u>0</u>	<u>198,896</u>
Change in net assets	(10,460)	0	(10,460)
Net assets, beginning of year	<u>850,710</u>	<u>0</u>	<u>850,710</u>
Net assets, end of year	<u>\$ 840,250</u>	<u>\$ 0</u>	<u>\$ 840,250</u>

See Audit Report and Notes

The Brain Foundation
Statement of Functional Expenses
For Fiscal Year Ended June 30, 2012

Expense	Program Services			Support Services		Total
	Unrestricted	Temporarily restricted	Subtotal	Mgmt. and general	Fund raising	
Depreciation	61,001		61,001			61,001
Dues and subscriptions	150		150			150
Home owners dues	4,928		4,928			4,928
Insurance	2,942		2,942			2,942
Licenses and permits			0	125		125
Miscellaneous			0	141		141
Mortgage interest	68,128		68,128			68,128
Professional fees			0	3,950		3,950
Repairs and maintenance	31,087		31,087			31,087
Systems/software				1,400		1,400
Tax, real estate	3,294		3,294			3,294
Utilities	21,750		21,750			21,750
Total	\$ 193,280	\$ 0	\$ 193,280	\$ 5,616	\$ 0	\$ 198,896

See Audit Report and Notes

The Brain Foundation
Statement of Cash Flow
For Fiscal Year Ended June 30, 2012

Cash flows from operations:	
Change in net assets	\$ (10,460)
Depreciation	61,001
Adjustments to reconcile net income to net cash provided by operations:	
Accounts receivable	250
Accounts payable	(216)
VHDA Escrow	833
Net cash provided by operating activities	<u>51,408</u>
Cash flows from investing activities:	
Real estate	(1,625)
Prepayments	(9,609)
Net cash provided by investing activities	<u>(11,234)</u>
Cash flows from financing activities	
Security deposits	75
Mortgages	(48,232)
Net cash provided by financing activities	<u>(48,157)</u>
Net cash increase for period	<u>(7,983)</u>
Cash at beginning of period	\$ <u>139,354</u>
Cash at end of period	\$ <u><u>131,371</u></u>

See Audit Report and Notes

The Brain Foundation

Notes to Financial Statements

June 30, 2012

A. ORGANIZATION

On December 10, 2003, the Brain Foundation received notice concerning the Internal Revenue Service determination that The Brain Foundation was exempt from federal income tax under Section 501 (a) of the Internal Revenue Code as an organization described in Section 501(c)(3). On June 28, 2006, The Brain Foundation received registration notice from the Commonwealth of Virginia that the organization was in compliance with the registration requirements of Section 57-49 of the Law.

The Brain Foundation mission is to provide affordable housing for those suffering from serious and persistent brain diseases, such as schizophrenia and bi-polar disorders, and who are homeless or vulnerable to becoming homeless.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements of The Brain Foundation were prepared on the accrual basis of accounting and accordingly reflect all significant receivables and payables.

Financial Statement Presentation - The Brain Foundation has adopted (SFAS-117) "Financial Statements of Not-for-Profit organization." Under SFAS-117, The Brain Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Net assets — The following is a description of the separate funds and activities within each net asset category:

- **Unrestricted** — Represents amounts that are available for support of The Brain Foundation's mission, including acquisitions of residential homes. Unrestricted donations includes resources designated by the Board of Directors.
- **Temporarily restricted** — Represents resources restricted by contributors to The Brain Foundation for specific uses to support the mission.
- **Permanently restricted** — Represents endowment resources for which the principal is restricted by contributors, and only the earnings may be used for organization purposes.

Estimates and assumptions — The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

See accountant's accompanying report.

Cash and cash equivalents — For purposes of the Statement of Cash Flow, The Brain Foundation considers cash and cash equivalents to be currency in banks.

Investments — Investments are recorded at market value. Contributed investments are recorded at fair market value as of the date of donation. All investments are Level 1.

Income taxes — For federal income tax purposes, the Internal Revenue Service has recognized The Brain Foundation as a Section 501 (c)(3) organization exempt from income taxes as provided under Section 501(a) of the Internal Revenue Code, except on any unrelated business income. For the fiscal year ended June 30, 2012, The Brain Foundation had no unrelated business income. The organization is subject to a look back period of three years.

Depreciation — Property and equipment are stated at cost if purchased or fair value, as of the date of donation, if contributed. Depreciation is computed using a straight-line basis over estimated useful lives of assets.

Functional Allocation of Expenses---The costs of providing the various programs and other activities for The Brain Foundation were summarized in the Statement of Functional Expenses. Costs were allocated among program services, and the overhead categories of management and fund raising.

C. GRANTS

In fiscal year 2012, six homes were available for up to four men or four women in each home. During the fiscal year, a \$5,000 grant was received from Giving Circle of Hope and a \$10,000 grant was received from Community Foundation of Virginia.

E. FIXED ASSETS

TBF homes consisted of the following at fiscal year end June 30, 2012:

Addresses of Fairfax County, VA homes	Date	Cost
	placed in service	
3942 Wilcoxson Drive	11/1/2006	\$416,078
10403 Layton Hall Drive	9/17/2007	472,213
4568 King Edward Court	6/18/2008	324,206
4553 King Edward Court	12/19/2008	334,904
10452 Armstrong Street	2/4/2010	358,340
1504 Farsta Court	2/14/2011	363,484
Total, residential properties		\$2,269,225

Depreciation expense for the year was \$61,001.

See accountant's accompanying report.

F. RESTRICTED NET ASSETS

As of June 30, 2012, there were no temporarily restricted or permanently restricted net assets.

G. EMPLOYEES/VOLUNTEERS

All work was done by volunteers. There was no retirement plan.

H. GOING CONCERN

As purchasers of rental residences, The Brain Foundation's ability to serve its mission could be enhanced by the current decline in housing market prices. For fiscal year 2012, financial ratios of liquidity and solvency indicated the company had sufficient capital to meet its short term obligations and weather difficult financial periods.

I. FUNCTIONAL EXPENSES

In fiscal year 2012, The Brain Foundation had total functional expenses of \$198,896 of which \$193,280, or 97 percent, were for program services, and the remaining 3 percent for management & general, with immaterial fund raising expenses paid by an organization officer and not recorded. As the organization provides substantial financial support for the mission home occupants, the standard accounting for typical renters and rental homeowners does not apply.

The Brain Foundation's home occupants received assistance from the organization for renter or rental home owner related expenses, including insurance, mortgage interest, real estate tax, depreciation, repairs & maintenance, telephone & cable, and utilities. Thus, these expenses were shown as program services. In allocating for organization support services, management & general expenses included bank service fees, licenses & permits, miscellaneous administrative, postage & delivery, and professional fees.

J. DONATED MATERIALS

The organization policy is to capitalize donated materials to the extent that the organization can establish a fair market value of \$1,000. Otherwise, the value will not be considered for capitalization.

K. SUBSEQUENT EVENTS

The organization subsequent events and the effects, if any, on financial statements through audit report date were available for issuance.

L. RENTAL OBLIGATIONS

Term of lease: Renters sign a lease for one year, after that it is month to month. Renters are evicted if they do not pay rent.

See Audit Report

Section 8 renters: Two of the homes have Section 8 renters in which tenants pay one-third of their family income, and Fairfax County pays the market rent difference. Each home's occupants are considered a family with the total of individual incomes considered family income.

M. LOAN TERMS AND INTEREST

The properties, purchased in fiscal year 2011 or prior years used the following two types of loans, with payments partially covered by each type of loan:

VIRGINIA HOUSING DEVELOPMENT AUTHORITY (VDHA): VHDA loans have interest loans. They require a \$50,000 replacement policy. The major funding for the house in Reston, VA purchased in fiscal year 2011, used Fairfax County, VA Consolidated Community Funding Pool funds with the remaining loan provided by VHDA.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD): HUD loans are no-interest loans. Payments are forgiven for 30 years. After that, HUD owns a share of the property equal to their share of the original market value.

N. ACCOUNT RECEIVABLES

All account receivable accounts are assumed collectible.