

THE BRAIN FOUNDATION

**FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**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

To the Board of Trustees of
The Brain Foundation, Inc.

We have audited the accompanying financial statements of The Brain Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Brain Foundation Organization, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Ferguson's Accounting Services, Inc.

Fairfax, VA
September 23, 2016

The Brain Foundation
Statement of Financial Position
June 30, 2016

Assets

Current assets		
Cash and cash equivalents	\$	145,574
VHDA escrow		<u>24,890</u>
Total cash and cash equivalents		170,464
Prepaid taxes		5,158
Certificates of deposit		<u>50,276</u>
Total current assets		225,898
Fixed Assets		
Real estate		1,801,551
Accumulated depreciation		<u>(428,956)</u>
Total fixed assets		<u>1,372,595</u>
Total assets		<u><u>1,598,493</u></u>

Liabilities and Net Assets

Liabilities		
Current liabilities		
Accounts payable		<u>5,454</u>
Total current liabilities		5,454
Long term liabilities		
Security deposits		6,692
Mortgages		<u>1,376,898</u>
Total long term liabilities		<u>1,383,590</u>
Total liabilities		<u>1,389,044</u>
Net assets		
Unrestricted		209,449
Temporarily restricted		0
Permanently restricted		<u>0</u>
Total net assets		<u>209,449</u>
Total liabilities and net assets	\$	<u><u>1,598,493</u></u>

See Audit Report and Notes.

The Brain Foundation
Statement of Activities
For Fiscal Year Ended June 30, 2016

Revenues and support	<u>Unrestricted</u>
Contributions	\$ 84,955
Investment interest	293
Fund raising	19,835
Grant	5,950
Rental assistance	33,434
Rental income	114,122
Total revenues and support	<u>258,589</u>
 Expenses	
Program services	233,896
Supporting services	
Management and general	17,852
Fundraising	7,019
Total supporting services	<u>24,871</u>
Total expenses	<u>258,767</u>
Change in net assets	(178)
Net assets, beginning of year	<u>209,627</u>
Net assets, end of year	<u>\$ 209,449</u>

See Audit Report and Notes

The Brain Foundation
Statement of Functional Expenses
For Fiscal Year Ended June 30, 2016

Expense	Program Services	Support Services		Total
	Unrestricted	Mgmt. & general	Fund raising	
Administrative expenses		442		442
Bank service charge		295		295
Depreciation	50,750			50,750
Fund raising			7,019	7,019
Home owners dues	10,093			10,093
Insurance, liability		2,855		2,855
Insurance, property & casualty	8,182			8,182
Miscellaneous	22			22
Mortgage interest	65,436			65,436
Professional fees		14,260		14,260
Repairs and maintenance	45,212			45,212
Tax, real estate	25,497			25,497
Utilities	28,704			28,704
Total	\$233,896	\$17,852	\$7,019	\$258,767

See Audit Report and Notes

The Brain Foundation
Statement of Cash Flow
For Fiscal Year Ended June 30, 2016

Cash flows from operations:

Change in net assets	\$ (178)
Depreciation	50,750
Adjustments to reconcile net income to net cash provided by operations:	
Accounts payable	1,129
VHDA escrow	(2,297)
Prepaid taxes	(10,027)
Reserve account	27,211
Net cash provided by operating activities	<u>66,588</u>

Cash flows from investing activities:

Certificates of deposit	182
Real estate purchase	(474,165)
Reserve account	(3,500)
Net cash provided by investing activities	<u>(477,483)</u>

Cash flows from financing activities

Security deposits	440
Mortgages	425,735
Net cash provided by financing activities	<u>426,175</u>

Net cash increase for period 15,280

Cash at beginning of period \$ 155,184

Cash at end of period \$ 170,464

See Audit Report and Notes

The Brain Foundation

Notes to Financial Statements

June 30, 2016

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's 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 uses Accounting Certification 958 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 Audit 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 were recorded at market value. Contributed investments were recorded at fair market value as of the date of donation. As of June 30, 2016, all of the organization's investments were of the Level 1 designation.

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, 2016, The Brain Foundation had no unrelated business income. The organization is subject to a look back period of three years.

Depreciation — Property and equipment were 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. FIXED ASSETS

In fiscal year 2016, nine homes were available for up to four men or four women in each home. The Brain Foundation homes consisted of the following as of fiscal year end June 30, 2016.

Addresses of Fairfax County, VA homes	Date placed in service	Cost to organization	Mortgage balances as of 6/30/2016
3942 Wilcoxson Drive	11/01/06	\$416,078	\$337,509
10403 Layton Hall Drive	09/17/07	472,213	360,832
4568 King Edward Court	06/18/08	324,206	236,526
4553 King Edward Court	12/19/08	104,912	47,605
10452 Armstrong Street	02/04/10	129,340	109,549
1504 Farsta Court	02/14/11	63,484	38,418
4811 Great Heron Terrace	09/27/12	19,840	--
4226 Fox Lake Drive	05/16/14	6,884	--
4108 Middle Ridge Drive	10/23/15	264,894	246,459
Total		<u>\$1,801,851</u>	<u>\$1,376,898</u>

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No mortgage payments were required for the homes located at 4811 Great Heron Terrace and 4226 Fox Lake Drive as these properties were obtained using a U.S. Housing and Development loan (See Note K). For all above homes, the depreciation expense for the fiscal year was \$50,750 and accumulated depreciation was \$428,956.

Annual Principal Payments Projected, 2017-2021					
Addresses of Fairfax County, VA homes	2017	2018	2019	2020	2021
3942 Wilcoxson Drive	\$9,974	\$10,458	\$10,966	\$11,498	\$12,057
10403 Layton Hall Drive	8,347	8,884	9,455	10,064	10,711
4568 King Edward Court	8,004	8,519	9,068	9,650	10,261
10452 Armstrong Street	2,367	2,494	2,629	2,770	2,919
1504 Farsta Court	1,319	1,373	1,429	1,487	1,548
4553 King Edward Court	1,640	1,673	1,706	1,741	1,776
4108 Middle Ridge Drive	7,910	8,069	8,232	8,398	8,568
Total, mortgage payments	<u>\$39,561</u>	<u>\$41,470</u>	<u>\$43,485</u>	<u>\$45,608</u>	<u>\$47,840</u>

D. RESTRICTED NET ASSETS

As of June 30, 2016, there were no temporarily restricted or permanently restricted net assets.

E. EMPLOYEES/VOLUNTEERS

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

F. GOING CONCERN

For fiscal year 2016, financial ratios indicated the organization had sufficient capital to meet its short term obligations for the following year.

G. FUNCTIONAL EXPENSES

In fiscal year 2016, The Brain Foundation had total functional expenses of \$258,767 of which \$233,896, or 90 percent, were for program services, and the remaining 10 percent for support services. 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 depreciation, homeowners dues, property and casualty insurance, mortgage interest, repairs and maintenance, supplies, real estate taxes, and utilities. Thus, these expenses were shown as program services. Organization support service expenses included administrative expenses, bank service charges, liability insurance, professional services, and fund raising.

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H. 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.

I. SUBSEQUENT EVENTS

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

J. RENTAL OBLIGATIONS POLICY; SECTION 8 RENTERS

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.

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.

K. LOAN TERMS AND INTEREST

The residential properties, purchased in fiscal year 2016 or prior years used the following two types of loans, with payments partially covered by each type of loan:

- 1) Virginia Housing Development Authority (VHDA) loans are interest loans. They required a \$50,000 replacement policy. The major funding for three of the properties (10452 Armstrong Street, 1504 Farsta Court, and 4553 King Edward Court) used Fairfax County, VA Consolidated Community Funding Pool funds.
- 2) U. S. Department of Housing and Urban Development (HUD) loans are no-interest loans. Payments are not required for 30 years. If properties are sold prior to the end of the loan period, HUD owns a share of the property equal to their share of the original market value. At the end of the loan period, the entire balance is forgiven. The Foundation has no present plans to sell any of the properties. As a result, the HUD loan balances are not included in the Statement of Financial Position, and the book value of assets acquired with these HUD loans have been reduced by a corresponding amount (See Note C).

L. ACCOUNT RECEIVABLES

All account receivable accounts were assumed collectible.