

AMERICAN BRAIN FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

**AMERICAN BRAIN FOUNDATION
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YEARS ENDED DECEMBER 31, 2015 AND 2014**

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CliftonLarsonAllen

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INDEPENDENT AUDITORS' REPORT

Board of Directors
American Brain Foundation
Minneapolis, Minnesota

We have audited the accompanying financial statements of the American Brain Foundation, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years 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.

Auditors' Responsibility

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. 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 auditors' 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 American Brain Foundation as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 16, 2016

**AMERICAN BRAIN FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014**

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,507,852	\$ 3,521,448
Grants and Gifts Receivable	709,137	1,455,914
Accounts Receivable	20,885	14,743
Other Assets	67,264	90,469
Total Current Assets	4,305,138	5,082,574
EQUIPMENT, NET	2,681	6,256
OTHER LONG-TERM ASSETS		
Funds Held With Others	5,876,776	5,926,970
Grants and Gifts Receivable, Net of Current Portion	6,673	472,524
Total Other Long-Term Assets	5,883,449	6,399,494
Total Assets	\$ 10,191,268	\$ 11,488,324
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 87,487	\$ 66,614
Grants Payable	1,457,303	1,650,000
Related Party Payable	65,202	45,442
Total Current Liabilities	1,609,992	1,762,056
LONG-TERM LIABILITIES		
Grants Payable, Net of Current Portion	98,766	757,323
Total Liabilities	1,708,758	2,519,379
NET ASSETS		
Unrestricted:		
Undesignated	2,339,969	2,318,417
Invested in Property and Equipment	2,681	6,256
Total Unrestricted	2,342,650	2,324,673
Temporarily Restricted	4,519,929	5,077,351
Permanently Restricted	1,619,931	1,566,921
Total Net Assets	8,482,510	8,968,945
Total Liabilities and Net Assets	\$ 10,191,268	\$ 11,488,324

See accompanying Notes to Financial Statements.

**AMERICAN BRAIN FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Grants and Gifts	\$ 673,752	\$ 2,092,462	\$ 53,010	\$ 2,819,224
Dues	-	-	-	-
Conference and Educational Fees	-	-	-	-
Royalties	-	-	-	-
Investment Income (Loss)	7,917	(15,761)	-	(7,844)
Other Revenue	25,359	-	-	25,359
Net Assets Released from Restrictions	2,634,123	(2,634,123)	-	-
Total Support and Revenue	<u>3,341,151</u>	<u>(557,422)</u>	<u>53,010</u>	<u>2,836,739</u>
EXPENSE				
Program Expenses	2,054,101	-	-	2,054,101
Support Services:				
Development	515,659	-	-	515,659
General and Administrative	718,982	-	-	718,982
Total Support Services	<u>1,234,641</u>	<u>-</u>	<u>-</u>	<u>1,234,641</u>
Total Expense	<u>3,288,742</u>	<u>-</u>	<u>-</u>	<u>3,288,742</u>
TOTAL CHANGES IN NET ASSETS BEFORE NON-OPERATING INVESTMENT INCOME	52,409	(557,422)	53,010	(452,003)
Non-Operating Investment Loss	<u>(34,432)</u>	<u>-</u>	<u>-</u>	<u>(34,432)</u>
TOTAL CHANGE IN NET ASSETS	17,977	(557,422)	53,010	(486,435)
Net Assets - Beginning of Year	<u>2,324,673</u>	<u>5,077,351</u>	<u>1,566,921</u>	<u>8,968,945</u>
NET ASSETS - END OF YEAR	<u>\$ 2,342,650</u>	<u>\$ 4,519,929</u>	<u>\$ 1,619,931</u>	<u>\$ 8,482,510</u>

See accompanying Notes to Financial Statements.

**AMERICAN BRAIN FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014**

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Grants and Gifts	\$ 660,980	\$ 2,473,079	\$ 64,500	\$ 3,198,559
Dues	690,000	-	-	690,000
Conference and Educational Fees	9,000	-	-	9,000
Royalties	25,615	-	-	25,615
Other Revenue	25,248	-	-	25,248
Investment Income	8,961	121,553	-	130,514
Net Assets Released from Restrictions	2,562,672	(2,562,672)	-	-
Total Support and Revenue	3,982,476	31,960	64,500	4,078,936
EXPENSE				
Program Expenses	2,655,057	-	-	2,655,057
Support Services:				
Development	423,256	-	-	423,256
General and Administrative	558,299	-	-	558,299
Total Support Services	981,555	-	-	981,555
Total Expense	3,636,612	-	-	3,636,612
TOTAL CHANGES IN NET ASSETS BEFORE NON-OPERATING INVESTMENT INCOME	345,864	31,960	64,500	442,324
Non-Operating Investment Income	142,783	-	-	142,783
TOTAL CHANGE IN NET ASSETS	488,647	31,960	64,500	585,107
Net Assets - Beginning of Year	1,836,026	5,045,391	1,502,421	8,383,838
NET ASSETS - END OF YEAR	\$ 2,324,673	\$ 5,077,351	\$ 1,566,921	\$ 8,968,945

See accompanying Notes to Financial Statements.

**AMERICAN BRAIN FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015			Total
	Program	Development	General and Administrative	
Salaries and Benefits	\$ 53,784	\$ 212,367	\$ 347,769	\$ 613,920
General Office	494	27,358	21,072	48,924
Software and Maintenance	-	101,640	-	101,640
Professional Fees	27,198	14,215	158,972	200,385
Management and Service Fees	15,432	63,456	103,169	182,057
Meeting and Travel	1,714	96,512	79,109	177,335
Grants and Awards	1,955,479	-	-	1,955,479
Depreciation	-	-	3,575	3,575
Other Expenses	-	111	5,316	5,427
Total Expenses	\$ 2,054,101	\$ 515,659	\$ 718,982	\$ 3,288,742

	2014			Total
	Program	Development	General and Administrative	
Salaries and Benefits	\$ 224,737	\$ 168,783	\$ 261,369	\$ 654,889
General Office	20,102	49,343	26,117	95,562
Software and Maintenance	78	95,954	-	96,032
Professional Fees	75,898	7,729	98,012	181,639
Management and Service Fees	38,971	31,541	57,756	128,268
Meeting and Travel	107,468	69,892	98,201	275,561
Grants and Awards	2,184,937	-	560	2,185,497
Depreciation	-	-	7,493	7,493
Other Expenses	2,866	14	8,791	11,671
Total Expenses	\$ 2,655,057	\$ 423,256	\$ 558,299	\$ 3,636,612

See accompanying Notes to Financial Statements.

**AMERICAN BRAIN FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ (486,435)	\$ 585,107
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	3,575	7,493
Permanently Restricted Contributions	(53,010)	(64,500)
(Increase) Decrease in Current Assets:		
Grants and Gifts Receivable	1,212,628	856,755
Accounts Receivable	(6,142)	40,655
Other Assets	23,205	(9,408)
Funds Held With Others	50,194	(1,764,336)
Increase (Decrease) in Liabilities:		
Accounts Payable	20,873	27,782
Grants Payable	(851,254)	711,021
Related Party Payable	19,760	(142,197)
Deferred Revenue	-	(100,000)
Net Cash Provided (Used) by Operating Activities	(66,606)	148,372
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently Restricted Contributions	53,010	64,500
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,596)	212,872
Cash and Cash Equivalents - Beginning of Year	3,521,448	3,308,576
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,507,852	\$ 3,521,448

See accompanying Notes to Financial Statements.

**AMERICAN BRAIN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The American Brain Foundation (the Foundation) is a not-for-profit corporation established to support vital research into finding cures for brain disease, and is committed to improving patient care, quality of life and public understanding of brain disease. Its vision is to cure brain disease.

Financial Statement Presentation

Net assets, support, revenue, expenses, gains and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of directors has discretionary control.

Temporarily Restricted – Those resources subject to donor-imposed restrictions which will be satisfied by actions of the Foundation or the passage of time.

Permanently Restricted – Those resources subject to a donor-imposed restriction that they be maintained permanently by the Foundation.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents. The Foundation maintains cash in bank accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts.

Receivables

Accounts, grants and gifts receivables are stated at net realizable value. Accordingly, the Foundation accounts for uncollectible accounts by the reserve method, which is based on management's judgment considering historical information. Payment is required 30 days after receipt of the invoice. Individual accounts past due more than 90 days are individually analyzed for collectability. When all collection efforts have been exhausted, the receivable is written off against the reserve. The Foundation had no allowance recorded at December 31, 2015 and 2014.

Equipment

Equipment is recorded at original cost. Additions, improvements or major renewals at or over \$5,000 are capitalized. Any gains or losses on property and equipment retirement are included in the current year operations.

Depreciation is computed using the straight-line method at rates based on estimated service lives and is computed using the straight-line method over a three year service life.

**AMERICAN BRAIN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds Held With Others

Funds held with others are made up of reserved investments held at the American Academy of Neurology Institute for purposes of earning long-term investment income. These funds are pooled with the investments at the American Academy of Neurology Institute. The Foundation has two board members that serve on a joint investment committee that oversees and monitors the investment pool. The Foundation has the ability to liquidate their investments at any time subject to the redemption restrictions on the individual investments. These investments in marketable securities are recorded at fair value and consist primarily of equity funds and corporate bond funds. Investments in certificates of deposit are recorded at cost. In addition, the investments include three limited partnerships that are diversified funds of hedge funds, reported at the estimated fair value of the Foundation's share of the fund, calculated monthly by the custodian. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility.

Grants Payable

Grants payable consist of awards and grants approved for various research projects and fellowships. Grants payable are recorded at the signing of the contract with both the researcher and the institution. Long-term grants payable are discounted based on the year to be paid.

Grants and Gifts

Grants and contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions are recognized at fair value when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Conditional promises to give are recorded when the condition has been satisfied. When a restriction is satisfied, temporarily restricted net assets are released to unrestricted net assets.

Fair Value Measurement

The Foundation categorizes its investments measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Investments valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.

**AMERICAN BRAIN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Foundation may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Revenue Recognition

Revenue related to conference and educational fees and management services is recognized at the time the events take place or the services are performed. Revenue that is received for future periods is recorded as deferred revenue and recognized in the periods to which the service relates.

Membership dues are recognized as revenue over the period in which the dues relate. Dues represent services rendered on a calendar year basis. Dues collected in advance are recorded as deferred revenue until they are earned.

Donated Goods and Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by American Brain Foundation. Donated goods are valued at market value on the date of donation. There were no donated goods or services for the years ended December 31, 2015 and 2014.

Allocation of Expenses

The Foundation's costs of providing its various services have been classified on a program basis in the statements of activities. Accordingly, certain costs have been allocated among the program and support services benefited. Expenses are charged directly to programs and support services where possible. Remaining expenses are allocated based on actual time spent on programs and support services.

**AMERICAN BRAIN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Foundation is organized and operates on a not-for-profit basis and its tax exempt status has been recognized by the Internal Revenue Service under Section 501(c)(3). The Foundation is classified as an organization which is not private foundations under the Internal Revenue Code and charitable contributions by donors are tax deductible. The Foundation is subject to unrelated business income taxes under the Internal Revenue Code for federal and state tax purposes.

The Foundation follows the provisions of FASB ASC 740-10-25, which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Foundation does not believe its financial statements include any uncertain tax positions. The Foundation's tax returns are subject to review and examination by federal authorities.

Other Concentrations

The Foundation also has a potential credit risk in contributions receivable since the balance is due from a limited number of individuals and corporate contributions.

Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through April 16, 2016, the date the financial statements were available to be issued.

**AMERICAN BRAIN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 2 GIFTS AND GRANTS RECEIVABLE

Grants and gifts receivable at December 31 are as follows:

	<u>2015</u>	<u>2014</u>
Less than One Year	\$ 709,137	\$ 1,455,914
One to Five Years	7,000	476,335
	<u>716,137</u>	<u>1,932,249</u>
Less: Discount to Present Value	(327)	(3,811)
Net Contributions Receivable	<u>\$ 715,810</u>	<u>\$ 1,928,438</u>

Amounts are presented in the statements of financial position as follows at December 31:

	<u>2015</u>	<u>2014</u>
Current	\$ 709,137	\$ 1,455,914
Long-Term	6,673	472,524
Total	<u>\$ 715,810</u>	<u>\$ 1,928,438</u>

Contributions expected to be received beyond one year are reflected at the present value of future cash flows at the date of donation using a discount rate of approximately 1% to 3%.

NOTE 3 EQUIPMENT

Equipment consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
Equipment	\$ 10,725	\$ 10,725
Less: Accumulated Depreciation	(8,044)	(4,469)
Net Equipment	<u>\$ 2,681</u>	<u>\$ 6,256</u>

**AMERICAN BRAIN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 4 FUNDS HELD WITH OTHERS

The investments of the Foundation are pooled with reserve investments at the American Academy of Neurology Institute and are recorded as funds held with others on the statement of financial position. The allocation of the percentage of underlying investments held by the Foundation consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
Reserves:		
Cash	\$ -	\$ 352,358
Corporate Bond Funds	1,817,804	1,531,559
Equity Funds - Foreign	1,126,912	1,061,688
Equity Funds - Mid-Cap	594,701	614,906
Equity Funds - Large Blend	1,874,126	1,930,357
Funds of Hedge Funds	463,233	436,102
Total Investments	<u>\$ 5,876,776</u>	<u>\$ 5,926,970</u>

Investments in the corporate bond funds, money market mutual funds, equity securities and equity funds are recorded at fair market value. The fund of hedge funds are recorded at the estimated fair value of the Foundation's share of the fund, calculated monthly by the custodian.

The Foundation's share of the underlying investment income, which includes earnings on the sweep and demand deposit accounts, consists of the following:

	<u>2015</u>	<u>2014</u>
Interest and Dividends	\$ 7,918	\$ 8,961
Realized Gain on Investments	-	21,162
Unrealized Gain (Loss) on Investments	(50,194)	243,174
Total Investment Income (Loss)	<u>\$ (42,276)</u>	<u>\$ 273,297</u>

The realized and unrealized gains and losses are included in investment income on the statements of activities. The Foundation maintains long-term reserve investments through long-term investment holdings. These investments are separated from the Foundation's general checking and savings accounts. All investment returns on long-term reserve investments are considered non-operating.

NOTE 5 FAIR VALUE MEASUREMENTS

The Foundation uses fair value measurements to record fair value adjustments to certain investments and to determine fair value disclosures. For additional information on how the Foundation measures fair value refer to Note 1 – Summary of Significant Accounting Policies.

**AMERICAN BRAIN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The following table presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy at December 31:

	2015			Fair Value
	Level 1	Level 2	Level 3	
FUNDS HELD WITH OTHERS				
Investment Pool Held with Others	\$ -	\$ 5,876,776	\$ -	\$ 5,876,776
Subtotal - Fair Value	<u>\$ -</u>	<u>\$ 5,876,776</u>	<u>\$ -</u>	<u>\$ 5,876,776</u>
	2014			Fair Value
	Level 1	Level 2	Level 3	
FUNDS HELD WITH OTHERS				
Investment Pool Held with Others	\$ -	\$ 5,926,970	\$ -	\$ 5,926,970
Subtotal - Fair Value	<u>\$ -</u>	<u>\$ 5,926,970</u>	<u>\$ -</u>	<u>\$ 5,926,970</u>

NOTE 6 GRANTS PAYABLE

Grants payable include the following at December 31:

	2015	2014
Current Portion of Grants Payable	\$ 1,457,303	\$ 1,650,000
Long-Term Portion of Grants Payable	98,766	757,323
Net Grants Payable	<u>\$ 1,556,069</u>	<u>\$ 2,407,323</u>
Amounts Due:		
One Year or Less	\$ 1,457,303	\$ 1,650,000
One to Five Years	100,000	764,999
Discount to Present Value	(1,234)	(7,676)
Net Grants Payable	<u>\$ 1,556,069</u>	<u>\$ 2,407,323</u>

Grants expected to be paid beyond one year are reflected at the present value of future cash flows using a discount rate of approximately 1% to 3%.

**AMERICAN BRAIN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 7 NET ASSETS

Unrestricted – Invested in Property and Equipment

The designated funds are those that were used to purchase equipment.

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes as of December 31:

	<u>2015</u>	<u>2014</u>
Education, Research and Award Funds	\$ 3,683,796	\$ 4,891,218
Operational Support	650,000	-
Annual Meeting and Other Programs	186,133	186,333
Total	<u>\$ 4,519,929</u>	<u>\$ 5,077,551</u>

Permanently Restricted

Permanently restricted net assets as of December 31 are restricted to investments in perpetuity, the income from which is expendable to support the following activities:

	<u>2015</u>	<u>2014</u>
Research Endowments:		
Multiple Sclerosis Endowment	\$ 334,305	\$ 334,305
General Research Endowment	49,300	49,300
Alzheimer's	60,000	60,000
Epilepsy	121,970	128,970
Neuroinfectious Disease	32,855	33,305
	<u>598,430</u>	<u>605,880</u>
Awards	1,021,501	961,041
Total	<u>\$ 1,619,931</u>	<u>\$ 1,566,921</u>

NOTE 8 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by the Foundation incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2015</u>	<u>2014</u>
Education, Research and Award Funds	\$ 1,984,123	\$ 1,174,085
Annual Meeting and Other Programs	650,000	1,388,587
Total	<u>\$ 2,634,123</u>	<u>\$ 2,562,672</u>

**AMERICAN BRAIN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 9 ENDOWMENT

The Foundation's donor-restricted endowment consists of 22 individual funds established to support research and awards and, as required by generally accepted accounting principles, net assets associated with those endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has determined the presentation 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 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.

The Foundation considers the following factors when making a determination to appropriate or accumulate donor-restricted funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 8% over the long-term.

Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return 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 Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objective within prudent risk constraints.

**AMERICAN BRAIN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 9 ENDOWMENT (CONTINUED)

The Foundation has a policy of appropriating for distribution each year 4.5% of its endowment fund's moving average fair value over the prior 12 months through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of the long-term rate of inflation.

This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity for a specific term as well as to provide additional real growth through new gifts and investment return. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the Foundation to retain as a fund of perpetual duration. There are no such deficiencies as of December 31, 2015.

Changes in endowment net assets for the fiscal year ended December 31 consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Balance, December 31, 2013	\$ 688,651	\$ 1,502,421	\$ 2,191,072
Investment Income	121,553	-	121,553
Contributions	-	64,500	64,500
Appropriation of Endowment Funds	(39,898)	-	(39,898)
Balance, December 31, 2014	770,306	1,566,921	2,337,227
Investment Loss	(15,761)	-	(15,761)
Contributions	-	53,010	53,010
Appropriation of Endowment Funds	(41,141)	-	(41,141)
Balance, December 31, 2015	<u>\$ 713,404</u>	<u>\$ 1,619,931</u>	<u>\$ 2,333,335</u>

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NOTE 10 RELATED PARTY TRANSACTIONS

All employees are employed by the American Academy of Neurology (AAN) and then leased to the Foundation. The Foundation pays all direct costs relating to employees and pays a management fee for services which include: marketing, information systems, legal, management oversight, and program activities. The total amount of services received from the Academy and Institute for the year ended December 31, 2015 and 2014 was as follows:

	<u>2015</u>	<u>2014</u>
Education, Research and Award Funds	\$ 182,057	\$ 128,267
Operational Support	614,000	654,000
Annual Meeting and Other Programs	84,867	56,919

The Foundation, in 2013, received a \$3,000,000 grant from the Academy requiring a 1:1 match. Approximately \$2,078,000 was matched as of December 31, 2015. As of December 31, 2015 and 2014, the Foundation has a receivable in the amount of \$198,767 and \$158,855, respectively. As of December 31, 2015, \$922,000 remained to be matched. The recording of the grant is contingent on matching performance by the Foundation and as such is not expensed until matched.

The Foundation in 2015 received a \$1,300,000 grant from the Academy in support of their operations. The Foundation in 2014 and prior years received grants from the Academy to support clinical research training fellowships. The grant in 2014 was \$540,000. As of December 31, 2015 and 2014, the Foundation had a receivable of \$220,000 and \$870,000 for these grants.

The Foundation in 2015 awarded a grant to the Academy of \$1,178,000 to support clinical research training fellowships. The Academy in 2015 assumed from the Foundation the responsibilities to manage clinical research training fellowships. The Foundation also provided support to the Academy for various awards in 2015 and 2014 totaling \$191,000 and \$181,000. As of December 31, 2015 and 2014, the Foundation had a payable to the Academy of \$854,333 and \$-0- related to these grants.

NOTE 11 SPLIT-INTEREST AGREEMENTS

The Foundation is a beneficiary to interest in two gift annuities held at a community foundation. The value of the gift annuities at December 31, 2015 and 2014 was \$62,950 and \$72,381, respectively.

The Foundation is also the beneficiary of other trusts and other assets in situations in which it has not been notified of the interest; the Foundation's interest may be conditional or revocable; or the value of our interest may not be readily ascertainable. In such circumstances, no contribution receivable has been recorded.