

THE BROTHER'S BROTHER FOUNDATION
Pittsburgh, Pennsylvania

Financial Statements
For the year ended December 31, 2010
and Independent Auditors' Report Thereon

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position, December 31, 2010 and 2009	3
Statements for the year ended December 31, 2010 (With Comparative Totals for 2009):	
Activities and Changes in Net Assets	4
Functional Expenses	6
Statements of Cash Flows for the years ended December 31, 2010 and 2009	8
Notes to Financial Statements	9



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
The Brother's Brother Foundation
Pittsburgh, Pennsylvania

We have audited the accompanying statements of financial position of The Brother's Brother Foundation (Foundation) as of December 31, 2010 and 2009 and the related statements of activities and changes in net assets, functional expenses, and statements of 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. The 2009 summarized comparative information pertaining to the Foundation's activities and changes in net assets has been derived from the Foundation's 2009 financial statements, and, in our report dated May 28, 2010, we expressed an unqualified opinion on those financial statements.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. 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 The Brother's Brother Foundation as of December 31, 2010, and the 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.

Pittsburgh, Pennsylvania
May 16, 2011

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THE BROTHER'S BROTHER FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2010	2009
ASSETS		
Cash and cash equivalents	\$ 2,633,603	\$ 1,107,857
Accounts receivable	97,274	254,697
Investments	4,772,339	4,374,992
Inventory	10,141,838	12,577,737
Prepaid expenses	21,930	23,694
Property and equipment, net	1,137,611	1,029,104
Total Assets	\$18,804,595	\$19,368,081
LIABILITIES		
Accounts payable and accrued liabilities	\$ 241,727	\$ 145,383
NET ASSETS		
Unrestricted	17,250,072	18,570,140
Temporarily restricted	962,106	337,561
Permanently restricted	350,690	314,997
Total Net Assets	18,562,868	19,222,698
Total Liabilities and Net Assets	\$ 18,804,595	\$ 19,368,081

See notes to financial statements.

THE BROTHER'S BROTHER FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010
 (With Comparative Totals for 2009)

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	
	General Operating	In-Kind	Total			2010	2009
REVENUE AND PUBLIC SUPPORT							
Donated materials and supplies	-	\$269,515,560	\$269,515,560	-	-	\$269,515,560	\$265,849,803
Individuals	\$1,482,492	-	1,482,492	\$ 570,447	-	2,052,939	1,103,542
Foundations	161,250	-	161,250	361,470	-	522,720	347,128
Program service fees	603,134	-	603,134	-	-	603,134	908,901
Government grants	-	-	-	26,115	-	26,115	25,466
Corporations	17,239	-	17,239	48,103	-	65,342	20,539
Civic and social clubs	(180)	-	(180)	25,064	-	24,884	6,283
Religious organizations	19,067	-	19,067	97,844	-	116,911	19,230
	<u>2,283,002</u>	<u>269,515,560</u>	<u>271,798,562</u>	<u>1,129,043</u>	<u>-</u>	<u>272,927,605</u>	<u>268,280,892</u>
Investment income	369,887	-	369,887	-	\$ 40,254	410,141	634,917
Rental income	34,650	-	34,650	-	-	34,650	33,000
Net assets released from restrictions	509,059	-	509,059	(504,498)	(4,561)	-	-
	<u>3,196,598</u>	<u>269,515,560</u>	<u>272,712,158</u>	<u>624,545</u>	<u>35,693</u>	<u>273,372,396</u>	<u>268,948,809</u>
FUNCTIONAL EXPENSES							
Program services	1,147,034	271,993,402	273,140,436	-	-	273,140,436	267,182,565
Support services:							
Management and general	667,140	-	667,140	-	-	667,140	588,873
Fundraising	224,650	-	224,650	-	-	224,650	178,867
Total Support Services	<u>891,790</u>	<u>-</u>	<u>891,790</u>	<u>-</u>	<u>-</u>	<u>891,790</u>	<u>767,740</u>
	<u>2,038,824</u>	<u>271,993,402</u>	<u>274,032,226</u>	<u>-</u>	<u>-</u>	<u>274,032,226</u>	<u>267,950,305</u>
Changes in Net Assets	1,157,774	(2,477,842)	(1,320,068)	624,545	35,693	(659,830)	998,504
NET ASSETS							
Beginning of year	<u>5,993,166</u>	<u>12,576,974</u>	<u>18,570,140</u>	<u>337,561</u>	<u>314,997</u>	<u>19,222,698</u>	<u>18,224,194</u>
End of year	<u>\$7,150,940</u>	<u>\$ 10,099,132</u>	<u>\$ 17,250,072</u>	<u>\$ 962,106</u>	<u>\$350,690</u>	<u>\$ 18,562,868</u>	<u>\$ 19,222,698</u>

See notes to financial statements.

THE BROTHER'S BROTHER FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010
 (With Comparative Totals for 2009)

	Program Services			Total
	International Education	International Health	International Humanitarian	
Educational materials	\$141,954,251	-	-	\$141,954,251
Medical equipment and supplies	-	\$128,956,907	-	128,956,907
Humanitarian supplies	-	-	\$1,082,244	1,082,244
Grants	132,555	28,042	87,716	248,313
Packaging and shipping	167,453	178,089	16,120	361,662
Salaries	105,184	124,683	5,332	235,199
Payroll taxes	8,512	10,113	461	19,086
Pension	6,000	3,717	-	9,717
Employee benefits - other	10,758	18,385	1,946	31,089
Outside services	3,457	31,705	788	35,950
Utilities	9,549	17,733	-	27,282
Printing expense	227	648	204	1,079
Maintenance	5,877	13,450	-	19,327
Telephone	25	356	8	389
Postage	1,685	17,468	2,335	21,488
Training expense	127	237	-	364
Audit and accounting	-	-	-	-
Insurance	4,891	9,083	-	13,974
Office supplies	4,018	60,774	-	64,792
Miscellaneous	46	85	-	131
Meals	47	980	20	1,047
Truck expense	2,336	4,337	-	6,673
Travel	1,579	13,803	20	15,402
Rent	1,240	2,302	-	3,542
Dues and subscriptions	54	115	-	169
Total Expenses Before Depreciation	142,419,871	129,493,012	1,197,194	273,110,077
Depreciation	10,626	19,733	-	30,359
Total Functional Expenses	\$142,430,497	\$129,512,745	\$1,197,194	\$273,140,436

See notes to financial statements.

	Support Services		Total	
	Management and General	Fundraising	2010	2009
	-	-	\$ 141,954,251	\$ 107,322,381
	-	-	128,956,907	155,651,748
	-	-	1,082,244	3,515,452
	\$ 5,926	\$ 8,672	262,911	7,403
	-	-	361,662	257,002
	422,149	103,228	760,576	690,032
	36,475	7,973	63,534	51,952
	18,971	6,996	35,684	30,825
	21,150	6,319	58,558	47,162
	14,992	40,342	91,284	68,634
	6,532	-	33,814	36,767
	2,413	26,364	29,856	15,605
	13,856	795	33,978	34,301
	10,992	-	11,381	10,041
	4,869	17,386	43,743	22,829
	59	-	423	224
	30,828	-	30,828	33,443
	7,782	-	21,756	18,583
	10,227	133	75,152	20,739
	23,097	965	24,193	22,088
	5,740	984	7,771	7,593
	-	-	6,673	3,319
	13,260	3,993	32,655	28,479
	3,804	-	7,346	7,250
	4,239	500	4,908	9,159
Total Expenses Before Depreciation	657,361	224,650	273,992,088	267,913,011
Depreciation	9,779	-	40,138	37,294
Total Functional Expenses	\$667,140	\$224,650	\$ 274,032,226	\$ 267,950,305

THE BROTHER'S BROTHER FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES		
Changes in net assets	\$ (659,830)	\$ 998,504
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	40,138	37,294
Realized and unrealized gain on investment, net	(392,022)	(583,525)
Changes in assets and liabilities:		
Accounts receivable	157,423	(90,292)
Inventory	2,435,899	639,015
Prepaid expenses	1,764	(8,247)
Accounts payable and accrued liabilities	96,344	(1,599)
Net Cash Provided By Operating Activities	<u>1,679,716</u>	<u>991,150</u>
INVESTING ACTIVITIES		
Proceeds from sale of investments	697,308	1,951,586
Purchases of property and equipment	(148,645)	(230,355)
Purchases of investments	(702,633)	(3,570,394)
Net Cash Used In Investing Activities	<u>(153,970)</u>	<u>(1,849,163)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	1,525,746	(858,013)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,107,857</u>	<u>1,965,870</u>
End of year	<u>\$ 2,633,603</u>	<u>\$ 1,107,857</u>

See notes to financial statements.

THE BROTHER'S BROTHER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 1 - ORGANIZATION

The Brother's Brother Foundation (Foundation) is an organization formed for the purpose of coordinating efforts and resources for the benefit of the ill and needy worldwide. The Foundation promotes international health and education through the distribution and provision of donated medical, educational and other resources.

The Foundation depends principally upon cash donors, donors of materials and supplies and third-party reimbursement arrangements to carry out its program activities. The Foundation seeks reimbursement for certain costs related to carrying out its programs, including freight, distribution and overhead costs. Net related program service fees recognized in the accompanying financial statements for the years ended December 31, 2010 and 2009 were \$603,134 and \$908,901, respectively.

The Foundation's six largest contributors in 2010 and 2009 donated medical and educational materials that aggregated 86% and 92% of all contributed materials in 2010 and 2009, respectively. Three of the contributors in 2010 and four of the contributors in 2009 donated 10% or more of medical and educational materials received in the respective years. One contributor gave 45%; one contributor gave 17%; and one contributor gave 11% of the total received in 2010. One contributor gave 33%; one contributor gave 29%; one contributor gave 13%; and one contributor gave 12% of the total received in 2009.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying financial statements follows:

Use of Estimates - The preparation 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.

Net Assets and Changes Therein - The Foundation classifies and reports net assets and revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be satisfied by actions of the Foundation and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to the donor-imposed stipulation that the assets be maintained permanently by the Foundation. These assets are invested in a separate investment account to ensure the funds are maintained in perpetuity. The Foundation's investment policy in relation to these funds has 70% of the balance in equity funds and 30% of the balance in fixed-income securities.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All unconditional donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is satisfied), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted.

When the Foundation receives a contribution of a long-lived asset or a financial asset designated for acquisition of a long-lived asset that is not subject to a donor stipulation as to how long the asset must be used, the receipt of the related contribution is reported as unrestricted support.

Cash and Cash Equivalents - The Foundation maintains, in several banks in the United States, cash that may at times exceed federally insured amounts. In addition, the Foundation considers all highly liquid investments with original maturities of three months or less to be cash equivalents. All cash equivalents held by investment managers are included in investments.

Accounts Receivable - Accounts receivable are primarily composed of program service fees and are recorded at the amount management expects to collect from balances outstanding. Based on management's assessment of the credit history of those having outstanding balances and current relationships with the Foundation, it believes that realization of losses on balances outstanding at December 31, 2010 and 2009 will be immaterial. It is reasonably possible that the Foundation's estimate of the allowance for doubtful accounts will change. As of December 31, 2010 and 2009, no allowance for doubtful accounts is considered necessary.

Investments - The Foundation has an investment policy seeking total return on the Foundation's permanent endowment. The income to be utilized by operations is calculated in accordance with contractual agreements and state statutes. Investments are stated at fair value determined by quoted market prices in accordance with the Accounting for Certain Investments Held by Not-for-Profit Organizations topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification or ASC). The annual market adjustments are reported as investment income.

Inventory - Inventory consists of undistributed in-kind materials at year-end. The Foundation receives a substantial amount of in-kind goods from various regional and national donors, primarily consisting of medical and educational materials. These materials are included in the financial statements at amounts that approximate fair values on the date of donation. In accordance with FASB ASC topic Fair Value Measurements and Disclosures, fair value was determined using transactional data in similar markets. For example, the valuation methodology for donated pharmaceuticals utilized published reimbursement pricing guidelines from federal (Center for Medicare and Medicaid Services - CMS) and state (West Virginia State Maximum Allowable Cost - WV SMAC) sources as a primary reference. (See Note 5.) In accordance with the Accounting for the Impairment or Disposal of Long-Lived Assets topic of the Codification, the valuation of inventory was evaluated for impairment as of December 31, 2010 and 2009, and there was no impairment noted.

Property and Equipment - Property and equipment are recorded at the lower of cost or fair value at the date of contribution, with depreciation provided on the straight-line method over estimated useful lives. All purchases of property and equipment over \$500 are capitalized. Repairs and maintenance that do not extend the lives of the applicable assets are expensed as incurred. Gain or loss from the retirement or other disposition of assets is included in the statement of activities and changes in net assets. Upon identification of indicators of impairment, management compares the carrying value of its long-lived assets to the undiscounted cash flows of such assets. There were no such impairments identified during 2010 or 2009.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Shipping and Handling Costs - The Foundation records the costs of shipping and handling in program services. These costs were approximately \$362,000 and \$257,000 at December 31, 2010 and 2009, respectively.

Income Taxes - The Foundation is a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code (IRC) and is also classified as an entity that is not a private foundation under the meaning of Section 509(a) of the IRC. In addition, the Foundation has not identified any material uncertain tax positions requiring an accrual or disclosure in the financial statements.

Recent Accounting Pronouncements - In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update, Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements, to require new disclosure for fair value measurements and provide clarification for existing disclosure requirements. More specifically, this update will require information about purchases, sales, issuances and settlements to be presented separately (i.e., present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. These disclosures are effective for fiscal years beginning after December 15, 2010. (See Note 4, Fair Value Measurements, for disclosures.)

NOTE 3 - INVESTMENTS

Investments are presented in the financial statements at fair market value. Fair market value and related cost bases at December 31 are as follows:

	2010		2009	
	Market	Cost	Market	Cost
Money market fund	\$ 613,614	\$ 613,614	\$ 1,263,760	\$ 1,263,760
Fixed-income mutual funds:				
Other fixed income	1,837,839	1,810,358	1,434,196	1,434,475
U.S. common stocks:				
Energy	118,314	91,553	105,649	96,580
Materials	15,077	11,294	12,745	12,334
Industrials	96,895	69,780	97,812	91,493
Consumer discretionary	110,561	84,629	94,212	83,901
Consumer staples	65,686	58,490	77,569	75,716
Healthcare	107,010	99,052	122,430	108,099
Financials	132,504	125,673	99,095	97,311
Information technology	166,957	133,798	179,755	154,804
Telecommunications services	15,278	13,485	16,257	15,037
Utilities	24,138	24,653	26,497	25,487
Sub-Total	3,303,873	3,136,379	3,529,977	3,458,997

THE BROTHER'S BROTHER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 3 - INVESTMENTS (Continued)

	2010		2009	
	Market	Cost	Market	Cost
Balance Forward	\$ 3,303,873	\$ 3,136,379	\$ 3,529,977	\$ 3,458,997
Equity mutual funds:				
Large cap funds	207,914	180,967	130,047	115,437
Mid cap funds	258,837	189,764	158,110	141,511
Small cap funds	149,133	125,354	79,757	73,280
International-developed	336,454	296,760	243,227	222,645
Emerging markets	373,340	303,309	206,668	179,957
Other equity funds	142,788	133,821	27,206	25,888
Total investments	\$ <u>4,772,339</u>	\$ <u>4,366,354</u>	\$ <u>4,374,992</u>	\$ <u>4,217,715</u>

Investment income for the years ended December 31 is composed of the following:

	2010	2009
Interest	\$ 383	\$ 4,871
Dividends	95,997	64,025
Realized and unrealized gains	313,761	566,021
	\$ <u>410,141</u>	\$ <u>634,917</u>

Investments are exposed to various risks such as interest rate, market and credit risks. The Foundation's principal financial instruments subject to credit risk are its investments. The investments are managed by professional advisors subject to the Foundation's investment policy. The degree and concentration of credit risk varies by type of investment. Due to the level of risk associated with certain investments, it is possible that changes in the values of investments could occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

NOTE 4 - FAIR VALUE MEASUREMENTS

The Foundation has implemented FASB ASC topic Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for its measurement and expands disclosures about fair value measurement. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., exit price) in an orderly transaction between market participants at the measurement date. The Fair Value Measurements and Disclosures topic of the ASC establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

THE BROTHER'S BROTHER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access. As of December 31, 2010 and 2009, the Foundation's investments in equity and fixed-income mutual funds and money market funds are within this level of the fair value hierarchy.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable markets; and
- Data by correlation or other means

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The carrying value of the Foundation's financial instruments including cash and cash equivalents, accounts receivable, prepaid expenses and accounts payable and accrued liabilities approximates their fair value due to their short-term nature.

The Foundation did not have any financial assets or liabilities categorized as Level 3 at December 31, 2010 and 2009.

NOTE 5 - INVENTORY

The Foundation's inventory at December 31 is summarized as follows:

	2010	2009
Pharmaceuticals	\$ 6,197,056	\$ 6,348,495
Medical equipment and supplies	2,461,866	3,817,658
Education	1,464,873	2,339,792
Humanitarian	18,043	71,792
	\$ <u>10,141,838</u>	\$ <u>12,577,737</u>

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE 6 - PROPERTY AND EQUIPMENT

The Foundation's property and equipment at December 31 are summarized as follows:

	<u>2010</u>		<u>2009</u>
Building and improvements	\$ 1,080,897	\$	934,101
Equipment and furniture	131,088		205,543
Land	<u>213,201</u>		<u>213,201</u>
	1,425,186		1,352,845
Less - Accumulated depreciation	<u>287,575</u>		<u>323,741</u>
Property and equipment, net	\$ <u>1,137,611</u>	\$	\$ <u>1,029,104</u>

NOTE 7 - RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2010 and 2009 of \$962,106 and \$337,561, respectively, are available for worldwide health and educational programs. Temporarily restricted assets available for use in the Haiti earthquake relief totaled approximately \$431,000 at December 31, 2010. There were no temporarily restricted assets available for use in the Haiti earthquake relief at December 31, 2009.

Temporarily restricted net assets were released as follows:

	<u>2010</u>		<u>2009</u>
Pharmacy room at the Foundation's warehouse	-	\$	49,040
50th Anniversary celebration for the Foundation	\$ 1,143		4,435
Other health and welfare activities	<u>503,355</u>		<u>80,194</u>
	\$ <u>504,498</u>	\$	\$ <u>133,669</u>

Permanently restricted net assets at December 31, 2010 and 2009 of \$350,690 and \$314,997, respectively, are restricted to investments in perpetuity. See Note 10 for additional disclosures relating to the permanently restricted net assets.

NOTE 8 - ENDOWMENT

The endowment consists of an investment fund established primarily for programming and operating needs of the Foundation and includes donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE 8 - ENDOWMENT (Continued)

Interpretation of Relevant Law - The Board of Trustees of the Foundation has elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141) for the donor-restricted endowment funds. Act 141 is a total return policy that allows a nonprofit to choose to treat a percentage of the average market value of the endowment's permanently restricted investments as income each year. However, the long-term preservation of the real value of the assets must be taken into consideration when the Board elects the amount. On an annual basis, the Board must elect, in writing, a spending rate of between 2% and 7%. This percentage is applied to the average market value of the investments at the end of the prior year. Average market value is based on the previous 12 quarters. The Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The undistributed amounts earned are included in permanently restricted net assets as well. In accordance with Act 141, the Foundation has adopted a written investment policy, of which a section specifically relates to the endowment fund. On an annual basis, the Board also sets a spending rate between 2% and 7% of the endowment's principal market value over the preceding three years. The Foundation considers the following factors in making a determination to set a spending rate:

1. Protecting the corpus of the endowment fund;
2. Preserving the spending power of the assets;
3. Obtaining maximum investment return with reasonable risk and operational consideration; and
4. Complying with applicable laws.

Donor-restricted endowment funds comprise the permanently restricted net asset balance of \$350,690 and \$314,997 at December 31, 2010 and 2009, respectively.

The following represents the change in the endowment fund for the years ended December 31:

	<u>2010</u>		<u>2009</u>
Endowment net assets beginning of year	\$ 314,997	\$	244,680
Investment return:			
Investment income	7,525		5,708
Net appreciation	<u>37,279</u>		<u>73,512</u>
	359,801		323,900
Appropriation of endowment assets for expenditure	(4,561)		(6,424)
General and administrative expense	<u>(4,550)</u>		<u>(2,479)</u>
Endowment net assets end of year	\$ <u>350,690</u>	\$	\$ <u>314,997</u>

Return Objectives and Risk Parameters - The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a stream of funding for programs and initiatives supported by the endowment. The policies are also intended to protect the integrity of the assets and achieve the optimal return possible within the specified risk parameters. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a blended benchmark of equity and fixed-income peer groups.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE 8 - ENDOWMENT (Continued)

Strategies Employed for Achieving Objectives - 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 viewing the assets as having a long-term horizon with moderate liquidity needs, and has taken a long-term investment posture, which favors equity holdings.

Spending Policy and How the Investment Objectives Relate to Spending Policy - In accordance with Act 141, the Foundation annually transfers between 2% and 7% of the previous three years' market value average of the endowment fund to unrestricted net assets for use in operations. In 2010 and 2009, the spendable return totaled 1% or \$4,500 and 2% or \$6,400, respectively. This spending policy is consistent with the Commonwealth of Pennsylvania's guidelines and with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

NOTE 9 - GIFTS-IN-KIND

Recognition of gifts-in-kind (GIK) revenue is limited to such contributions that the Foundation takes possession of, or constructive title to, as the original recipient; are received and/or handled in partnership with an end-user agency; or are used in Foundation programs.

The Foundation also assists as an agent in the shipment of GIK that are designated for other charitable organizations. The value of these shipments is minimal and is not reflected in the accompanying financial statements, since the Foundation does not have variance power over these transactions.

NOTE 10 - RETIREMENT PLANS

The Foundation has a noncontributory pension plan covering all qualified personnel. Contributions to the plan are determined by the Foundation but are limited to 15% of the total compensation of the participants for the year. For 2010 and 2009, the Foundation's contributions to the plan approximated \$36,000 and \$31,000, respectively.

In addition, the Foundation has a Section 403(b) plan covering substantially all employees. Participants may contribute up to 15% of their compensation, but the plan does not provide for contributions by the Foundation.

NOTE 11 - ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and support services benefited based on an analysis of staff time spent on, and/or floor space dedicated to, the related activities.

NOTE 12 - SUBSEQUENT EVENTS

Subsequent events are defined as events or transactions that occur after the balance sheet date, but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through May 16, 2011, the date on which the financial statements were available to be issued.