

THE BROTHER'S BROTHER FOUNDATION
Pittsburgh, Pennsylvania

Financial Statements
For the years ended December 31, 2015 and 2014
and Independent Auditors' Report Thereon



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of The Brother's Brother Foundation (Foundation), which comprise the statement of financial position as of December 31, 2015, and the related statement of activities and changes in net assets and statements of functional expenses 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.

Auditors' 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 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 Foundation'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 Foundation'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 Foundation as of December 31, 2015, and the changes in net assets, functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

We have previously audited The Brother's Brother Foundation's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 26, 2015. In our opinion, the summarized comparative information presented herein for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
June 27, 2016

THE BROTHER'S BROTHER FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 952,579	\$ 553,117
Restricted cash and cash equivalents	773,748	929,337
Accounts receivable	104,669	99,854
Investments	5,357,711	4,959,022
Inventory	23,800,758	43,073,211
Prepaid expenses	31,722	34,897
Property and equipment, net	<u>1,799,786</u>	<u>1,709,049</u>
Total Assets	<u><u>\$32,820,973</u></u>	<u><u>\$51,358,487</u></u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 146,256	\$ 151,475
NET ASSETS		
Unrestricted	31,523,144	49,885,654
Temporarily restricted	773,748	929,337
Permanently restricted	<u>377,825</u>	<u>392,021</u>
Total Net Assets	<u>32,674,717</u>	<u>51,207,012</u>
Total Liabilities and Net Assets	<u><u>\$32,820,973</u></u>	<u><u>\$51,358,487</u></u>

See notes to financial statements.

THE BROTHER'S BROTHER FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2015

(with comparative totals for the year ended December 31, 2014)

	Unrestricted		
	General Operating	In-Kind	Total
REVENUE AND PUBLIC SUPPORT			
Donated materials and supplies	-	\$234,162,007	\$234,162,007
Individuals	\$2,026,827	-	2,026,827
Foundations	236,253	-	236,253
Program service fees	709,248	-	709,248
Corporations	16,942	-	16,942
Civic and social clubs	9,328	-	9,328
Religious organizations	31,164	-	31,164
	<u>3,029,762</u>	<u>234,162,007</u>	<u>237,191,769</u>
Investment (loss) income	(65,168)	-	(65,168)
Rental income	39,250	-	39,250
Other (expense) income	(15,396)	-	(15,396)
Special event income	68,632	-	68,632
Net assets released from restrictions	785,203	-	785,203
	<u>3,842,283</u>	<u>234,162,007</u>	<u>238,004,290</u>
FUNCTIONAL EXPENSES			
Program services	1,486,483	253,358,377	254,844,860
Support services:			
Management and general	1,187,215	-	1,187,215
Fundraising	302,656	-	302,656
Special events	32,069	-	32,069
Total Support Services	<u>1,521,940</u>	<u>-</u>	<u>1,521,940</u>
	<u>3,008,423</u>	<u>253,358,377</u>	<u>256,366,800</u>
Changes in Net Assets	833,860	(19,196,370)	(18,362,510)
NET ASSETS			
Beginning of year	<u>7,145,462</u>	<u>42,740,192</u>	<u>49,885,654</u>
End of year	<u>\$7,979,322</u>	<u>\$ 23,543,822</u>	<u>\$ 31,523,144</u>

See notes to financial statements.

Temporarily Restricted	Permanently Restricted	Total	
		2015	2014
-	-	\$234,162,007	\$241,751,012
\$234,297	-	2,261,124	1,122,970
263,873	-	500,126	535,829
-	-	709,248	676,391
5,773	-	22,715	34,808
32,250	-	41,578	18,622
70,411	-	101,575	136,424
<u>606,604</u>	<u>-</u>	<u>237,798,373</u>	<u>244,276,056</u>
-	\$ (6,582)	(71,750)	124,844
-	-	39,250	38,450
15,396	-	-	1,264
-	-	68,632	162,985
<u>(777,589)</u>	<u>(7,614)</u>	<u>-</u>	<u>-</u>
<u>(155,589)</u>	<u>(14,196)</u>	<u>237,834,505</u>	<u>244,603,599</u>
-	-	254,844,860	234,011,948
-	-	1,187,215	1,078,848
-	-	302,656	291,119
-	-	32,069	31,569
<u>-</u>	<u>-</u>	<u>1,521,940</u>	<u>1,401,536</u>
<u>-</u>	<u>-</u>	<u>256,366,800</u>	<u>235,413,484</u>
(155,589)	(14,196)	(18,532,295)	9,190,115
<u>929,337</u>	<u>392,021</u>	<u>51,207,012</u>	<u>42,016,897</u>
<u>\$773,748</u>	<u>\$377,825</u>	<u>\$ 32,674,717</u>	<u>\$ 51,207,012</u>

THE BROTHER'S BROTHER FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

(with comparative totals for the year ended December 31, 2014)

	Program Services			Total
	International Education	International Health	International Humanitarian	
Educational materials	\$25,959,258	-	-	\$ 25,959,258
Medical equipment and supplies	-	\$227,319,457	\$ 484	227,319,941
Humanitarian supplies	-	-	79,178	79,178
Grants	-	356,626	-	356,626
Packaging and shipping	24,319	411,068	-	435,387
Salaries	98,712	264,309	-	363,021
Payroll taxes	6,962	18,906	-	25,868
Pension	2,457	8,601	-	11,058
Employee benefits - other	10,448	27,730	-	38,178
Consulting services	-	-	-	-
Outside services	172	13,655	-	13,827
Utilities	7,171	13,318	-	20,489
Printing expense	157	-	-	157
Maintenance	1,152	2,139	-	3,291
Telephone	-	-	-	-
Postage	9	33,482	-	33,491
Training expense	296	1,549	-	1,845
Audit and accounting	-	-	-	-
Insurance	3,817	7,462	-	11,279
Office supplies	2,656	6,128	-	8,784
Purchased program supplies	-	81,964	-	81,964
Miscellaneous	358	849	-	1,207
Meals	12	741	-	753
Truck expense	2,218	4,120	-	6,338
Travel	596	15,197	-	15,793
Rent	3,206	5,955	-	9,161
Dues and subscriptions	51	94	-	145
Total Expenses Before Depreciation	26,124,027	228,593,350	79,662	254,797,039
Depreciation	16,737	31,084	-	47,821
Total Functional Expenses	<u>\$26,140,764</u>	<u>\$228,624,434</u>	<u>\$ 79,662</u>	<u>\$254,844,860</u>

See notes to financial statements.

Support Services				Total	
Management and General	Fundraising	Special Events	Total	2015	2014
-	-	-	-	\$ 25,959,258	\$ 95,831,335
-	-	-	-	227,319,941	136,463,609
-	-	-	-	79,178	170,411
\$ 1,645	-	-	\$ 1,645	358,271	211,500
-	-	-	-	435,387	535,682
617,422	\$170,483	-	787,905	1,150,926	1,110,405
53,589	11,546	-	65,135	91,003	86,216
31,486	8,188	-	39,674	50,732	40,915
50,219	8,707	-	58,926	97,104	91,294
13,396	-	-	13,396	13,396	7,414
19,842	66,539	-	86,381	100,208	142,660
4,670	-	-	4,670	25,159	26,483
18,438	9,233	-	27,671	27,828	33,093
24,609	4,790	-	29,399	32,690	36,852
13,988	-	-	13,988	13,988	14,664
2,680	12,505	-	15,185	48,676	32,801
198	-	-	198	2,043	839
23,445	-	-	23,445	23,445	28,483
20,265	75	-	20,340	31,619	27,824
24,420	671	-	25,091	33,875	25,973
-	-	-	-	81,964	134,821
43,688	649	32,069	76,406	77,613	75,646
9,489	194	-	9,683	10,436	9,579
10,312	-	-	10,312	16,650	21,164
31,159	1,801	-	32,960	48,753	38,506
139,991	-	-	139,991	149,152	141,851
4,902	7,275	-	12,177	12,322	7,323
1,159,853	302,656	32,069	1,494,578	256,291,617	235,347,343
27,362	-	-	27,362	75,183	66,141
<u>\$1,187,215</u>	<u>\$302,656</u>	<u>\$32,069</u>	<u>\$1,521,940</u>	<u>\$256,366,800</u>	<u>\$235,413,484</u>

THE BROTHER'S BROTHER FOUNDATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES		
Changes in net assets	\$(18,532,295)	\$ 9,190,115
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	75,183	66,141
Realized and unrealized loss (gain) on investment, net	67,392	(116,628)
Inventory	19,272,453	(9,343,214)
Changes in assets and liabilities:		
Accounts receivable	(4,815)	7,261
Prepaid expenses	3,175	(3,166)
Accounts payable and accrued liabilities	(5,219)	9,257
Net Cash Provided By (Used In) Operating Activities	<u>875,874</u>	<u>(190,234)</u>
INVESTING ACTIVITIES		
Proceeds from sale of investments	-	351,783
Purchases of investments	(466,081)	-
Purchases of property and equipment	(165,920)	(109,137)
Net Cash (Used In) Provided By Investing Activities	<u>(632,001)</u>	<u>242,646</u>
Net Increase In Cash and Cash Equivalents	243,873	52,412
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,482,454</u>	<u>1,430,042</u>
End of year	<u>\$ 1,726,327</u>	<u>\$ 1,482,454</u>

See notes to financial statements.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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. During 2013, the Foundation expanded operations and opened a new location in northern Virginia.

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, 2015 and 2014 were \$709,248 and \$676,391, respectively.

The Foundation's six largest contributors donated medical and educational materials that aggregated 92% and 96% of all contributed materials in 2015 and 2014, respectively. During 2015, three contributors donated 10% or more of medical and educational materials received in 2015, and five contributors donated more than 10% in 2014. One contributor gave 34%; one contributor gave 23%; and one contributor gave 19%; of the total received in 2015. One contributor gave 26%; one contributor gave 21%; one contributor gave 20%; and one contributor gave 18% of the total received in 2014.

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 (U.S. GAAP) 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 been to invest in a multi-asset mutual fund, which operates on a multi-manager basis and seeks to exceed inflation by 5% per year.

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.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The Foundation also has restricted cash funds that will be used at the direction of the donor for the Foundation's various programs.

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, 2015 and 2014 will be immaterial. It is reasonably possible that the Foundation's estimate of the allowance for doubtful accounts will change. As of December 31, 2015 and 2014, 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 (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. The valuation methodology for donated educational materials utilized net price, which according to publishers is the lowest price at which the title will be available. The total of all net prices provided is divided by the total number of units donated to calculate an average cost per unit. The average cost is then multiplied by the total units to determine fair value. The Foundation evaluates the fair value of the inventory donated during the year and may make additional adjustments based on the evaluation. During 2015 and 2014, inventory adjustments based on the fair value at the date of donation, mostly related to the Foundation's planned decision to destroy medical supplies, totaled approximately \$1,700,000 and \$3,300,000, respectively, and are included as in-kind program services on the accompanying statement of activities and changes in net assets, as well as medical equipment and supplies on the accompanying statement of functional expenses.

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 first compares the carrying value of its long-lived assets to the undiscounted cash flows of such assets. If the carrying value is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds fair value. Fair values are determined based on quoted market value, discounted cash flows or appraisals, as applicable. There were no such impairments identified during 2015 or 2014.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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 \$435,000 and \$536,000 for the years ended December 31, 2015 and 2014, 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. The Foundation is no longer subject to examinations by taxing authorities in any major tax jurisdiction for years before December 31, 2012.

Donated Services - The Foundation recognizes donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Foundation also receives contributed services from volunteers who donate time to the Foundation's activities. No amounts have been recognized in the accompanying statement of activities and changes in net assets for those services, since they would not have been purchased had they not been donated.

Recent Accounting Pronouncements - In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09 Revenue from Contracts with Customers (ASU 2014-09), which will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition guidance provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, a deferral on the implementation date, and this guidance will be effective for the Company beginning January 1, 2019 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Foundation is currently assessing the impact to its financial statements and related disclosures.

In July 2015, the FASB issued ASU No. 2015-11 Inventory: Simplifying the Measurement Date (ASU 2015-11), which applies to inventory that is measured using first-in, first-out (FIFO) or average cost. As prescribed by ASU 2015-11, an entity should measure inventory that is within scope of ASU 2015-11 at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for annual and interim periods beginning after December 15, 2016, and should be applied prospectively with early adoption permitted. The Foundation is currently assessing the impact of ASU 2015-11 on its financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02 Leases (Topic 842) (ASU 2016-02), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. ASU 2016-02 is expected to impact the Foundation's financial statements, since the Foundation has certain operating lease arrangements for which it is the lessee. ASU 2016-02 supersedes the previous leases standard, Leases (Topic 840). The standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Foundation is currently in the process of evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements and related disclosures.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events - Management has evaluated subsequent events through June 27, 2016, which is the date that the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

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

	2015		2014	
	Fair	Cost	Fair	Cost
Money Market Fund	\$ 18,331	18,331	\$ 11,526	\$ 11,526
Fixed-Income Mutual Funds	1,483,635	1,536,493	1,167,027	1,192,553
Equity Mutual Funds	827,007	869,772	677,978	643,997
TIFF Multi Asset fund	3,028,738	3,581,831	3,102,491	3,437,910
Total Investments	\$ <u>5,357,711</u>	<u>6,006,427</u>	\$ <u>4,959,022</u>	\$ <u>5,285,986</u>

TIFF Multi Asset Fund is a mutual fund consisting of a variety of investments, including cash equivalents, global stocks, high-yield bonds, commodities, REITs, inflation and inflation-linked bonds.

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

	2015	2014
Interest	\$ 1,423	\$ 1,046
Dividends	84,298	56,708
General and administrative expense	(11,463)	(10,346)
Endowment transfer	7,614	7,170
Capital gains and other additions	157,063	238,882
Realized and unrealized loss, net	<u>(310,685)</u>	<u>(168,616)</u>
	\$ <u>(71,750)</u>	\$ <u>124,844</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 MEASUREMENT

The Foundation has implemented FASB ASC topic Fair Value Measurement 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 BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

The Foundation discloses the category of assets and liabilities measured at fair value into one of three different levels, depending on the assumptions (i.e., inputs) used in the valuation. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The fair value hierarchy is defined as follows:

Level 1 - Valuations are based on unadjusted quoted prices in an active market for identical assets or liabilities.

Level 2 - Valuations are based on quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active, but for which significant inputs are observable, either directly or indirectly.

Level 3 - Valuations are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate of what market participants would use in valuing the asset or liability at the measurement date.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of inputs 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 Foundation measures fair value based upon actively traded markets where prices are either based on direct market quotes or observed transactions, where available. While the Foundation believes these valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

The Foundation has the following financial instruments whose carrying amounts on its statement of financial position at December 31, 2015 and 2014 approximate fair value due to their short-term nature: cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable and accrued liabilities.

The valuations of the Foundation's assets and liabilities measured at fair value on a recurring basis according to the fair value hierarchy are summarized as follows at December 31:

	Fair Value Measurement at December 31, 2015			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 18,331	-	-	\$ 18,331
Fixed income mutual funds:				
Other fixed income	1,483,635	-	-	1,483,635
Equity mutual funds:				
Large cap funds	543,339	-	-	543,339
Mid cap funds	120,599	-	-	120,599
Small cap funds	83,252	-	-	83,252
International developed	60,551	-	-	60,551
Emerging markets	19,266	-	-	19,266
TIFF multi-asset fund	3,028,738	-	-	3,028,738
	\$ 5,357,711	-	-	\$ 5,357,711

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

	Fair Value Measurement at December 31, 2014			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 11,526	-	-	\$ 11,526
Fixed income mutual funds:				
Other fixed income	1,167,027	-	-	1,167,027
Equity mutual funds:				
Large cap funds	438,531	-	-	438,531
Mid cap funds	97,804	-	-	97,804
Small cap funds	65,567	-	-	65,567
International developed	12,084	-	-	12,084
Emerging markets	63,992	-	-	63,992
TIFF multi-asset fund	3,102,491	-	-	3,102,491
	<u>\$ 4,959,022</u>	<u>-</u>	<u>-</u>	<u>\$ 4,959,022</u>

The Foundation did not have any financial assets or liabilities categorized as Level 3 at December 31, 2015 and 2014.

NOTE 5 - INVENTORY

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

	2015	2014
Pharmaceuticals	\$ 17,915,414	\$ 31,304,691
Medical equipment and supplies	1,815,183	2,155,298
Education	4,041,665	9,588,078
Humanitarian	28,496	25,144
	<u>\$ 23,800,758</u>	<u>\$ 43,073,211</u>

NOTE 6 - PROPERTY AND EQUIPMENT

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

	2015	2014
Building and improvements	\$ 1,695,357	\$ 1,619,195
Equipment and furniture	397,109	307,351
Land	213,201	213,201
	<u>2,305,667</u>	<u>2,139,747</u>
Less - Accumulated depreciation	<u>505,881</u>	<u>430,698</u>
Property and equipment, net	<u>\$ 1,799,786</u>	<u>\$ 1,709,049</u>

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 7 - RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2015 and 2014 of \$773,748 and \$929,337, respectively, are available for worldwide health and educational programs. Releases of temporarily restricted net assets were \$777,589 and \$721,291 as of December 31, 2015 and 2014, respectively.

Permanently restricted net assets at December 31, 2015 and 2014 of \$377,285 and \$392,021, respectively, are restricted to investments in perpetuity. See Note 8 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.

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. 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 \$377,825 and \$392,021 at December 31, 2015 and 2014, respectively.

Change in the endowment fund for the years ended December 31 is represented as follows:

	<u>2015</u>	<u>2014</u>
Endowment net assets beginning of year	\$ 392,021	\$ 395,287
Investment return:		
Investment income	20,503	26,790
Net depreciation	<u>(27,085)</u>	<u>(22,886)</u>
	385,439	399,191
Appropriation of endowment assets for expenditure	<u>(7,614)</u>	<u>(7,170)</u>
Endowment net assets end of year	<u>\$ 377,825</u>	<u>\$ 392,021</u>

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 8 - ENDOWMENT (Continued)

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 Foundation 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.

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 2015 and 2014, the spendable return totaled 2% or \$7,614 and \$7,170, 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. The Foundation's contributions to the plan approximated \$46,000 and \$41,000 for 2015 and 2014, 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.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 12 - LEASES

During May 2013, the Foundation entered into an operating lease agreement for the rental of warehouse space through April 2016. The terms of the lease agreement called for monthly base rent of approximately \$5,442 for the first year with approximately 3% annual escalations thereafter, and additional monthly operating expense overhead charges and a two-month abatement period. In 2015, the agreement was extended through May 2017. Rental expense for the warehouse amounted to approximately \$66,000 and \$67,000 at December 31, 2015 and 2014, respectively, and total rental expense amounted to approximately \$149,000 and \$142,000 at December 31, 2015 and 2014, respectively.

Future minimum rental payments under the operating leases are expected to be as follows:

<u>Year Ending</u> <u>December 31</u>		<u>Base</u> <u>Rent</u>
2016	\$	71,600
2017		<u>30,300</u>
	\$	<u><u>101,900</u></u>

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