THE BROTHER'S BROTHER FOUNDATION
Pittsburgh, Pennsylvania

Financial Statements
For the year ended December 31, 2012

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 statements of financial position of The Brother's Brother Foundation (Foundation) as of December 31, 2012, and the related statements of activities, changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements. The prior-year summarized comparative information pertaining to the Foundation has been derived from the Foundation's 2011 financial statements, and, in our report dated June 12, 2012, we expresses an unqualified opinion on those 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2012 and 2011, and the changes in net assets, functional expenses and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
June 24, 2013

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THE BROTHER'S BROTHER FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	December 31 2012	December 31 2011
ASSETS		
Cash and cash equivalents	$ 863,358	$ 1,999,542
Accounts receivable	146,218	111,078
Investments	6,539,085	4,965,750
Inventory	27,961,369	17,427,910
Prepaid expenses	27,028	24,366
Property and equipment, net	1,153,567	1,116,528
Total Assets	$ 36,690,625	$ 25,645,174
LIABILITIES		
Accounts payable and accrued liabilities	$ 148,997	$ 103,374
NET ASSETS		
Unrestricted	35,625,011	24,468,658
Temporarily restricted	555,431	748,142
Permanently restricted	361,186	325,000
Total Net Assets	36,541,628	25,541,800
Total Liabilities and Net Assets	$ 36,690,625	$ 25,645,174

See notes to financial statements.

THE BROTHER'S BROTHER FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012
(With Comparative Totals for 2011)

	Unrestricted		
	General Operating	In-Kind	Total
REVENUE AND PUBLIC SUPPORT			
Donated materials and supplies	-	$292,616,288	$292,616,288
Individuals	$ 1,441,977	-	1,441,977
Foundations	177,256	-	177,256
Program service fees	775,226	-	775,226
Government grants	-	-	-
Corporations	22,039	-	22,039
Civic and social clubs	8,800	-	8,800
Religious organizations	19,038	-	19,038
	2,444,336	292,616,288	295,060,624
Investment income (loss)	444,989	-	444,989
Rental income	39,000	-	39,000
Other Income	3,503	-	3,503
Net assets released from restrictions	642,012	-	642,012
Total Revenue and Public Support	3,573,840	292,616,288	296,190,128
FUNCTIONAL EXPENSES			
Program services	2,064,959	282,078,363	284,143,322
Support services:			
Management and general	682,921	-	682,921
Fundraising	207,532	-	207,532
Total Support Services	890,453	-	890,453
Total Functional Expenses	2,955,412	282,078,363	285,033,775
Changes in Net Assets	618,428	10,537,925	11,156,353
NET ASSETS			
Beginning of year	7,123,990	17,344,668	24,468,658
End of year	$ 7,742,418	$ 27,882,593	$ 35,625,011

See notes to financial statements.

Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
-	-	$292,616,288	$239,450,844
$ 290,269	-	1,732,246	1,019,971
121,748	-	299,004	713,051
-	-	775,226	735,892
-	-	-	-
10,560	-	32,599	127,646
3,865	-	12,665	50,062
16,254	-	35,292	73,057
442,696	-	295,503,320	242,170,523
-	$ 42,791	487,780	(118,244)
-	-	39,000	39,000
-	-	3,503	17,989
(635,407)	(6,605)	-	-
(192,711)	36,186	296,033,603	242,109,268
-	-	284,143,322	234,224,568
-	-	682,921	697,177
-	-	207,532	208,591
-	-	890,453	905,768
-	-	285,033,775	235,130,336
(192,711)	36,186	10,999,828	6,978,932
748,142	325,000	25,541,800	18,562,868
$ 555,431	$ 361,186	$ 36,541,628	$ 25,541,800

THE BROTHER’S BROTHER FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012
(With Comparative Totals for 2011)

	Program Services			
	International Education	International Health	International Humanitarian	Total
Educational materials	$124,906,852	-	-	$124,906,852
Medical equipment and supplies	-	$156,859,176	$ 3,325	156,862,501
Humanitarian supplies	-	-	309,010	309,010
Grants	100,000	431,068	-	531,068
Packaging and shipping	157,488	260,257	794	418,539
Salaries	143,676	168,859	-	312,535
Payroll taxes	10,992	12,835	-	23,827
Pension	6,555	9,250	-	15,805
Employee benefits - other	13,217	16,558	-	29,775
Consulting services	-	-	-	-
Outside services	3,643	34,266	-	37,909
Utilities	6,301	11,703	-	18,004
Printing expense	95	517	-	612
Maintenance	5,600	12,207	-	17,807
Telephone	-	-	-	-
Postage	-	15,055	-	15,055
Training expense	-	-	-	-
Audit and accounting	-	-	-	-
Insurance	5,463	10,147	-	15,610
Office supplies	7,060	13,524	-	20,584
Purchased program supplies	1,250	546,423	-	547,673
Miscellaneous	307	943	-	1,250
Meals	54	600	-	654
Truck expense	1,492	2,770	-	4,262
Travel	565	21,234	-	21,799
Rent	1,102	2,046	-	3,148
Dues and subscriptions	24	46	-	70
Total Expenses Before Depreciation	125,371,736	158,429,484	313,129	284,114,349
Depreciation	10,141	18,832	-	28,973
Total Functional Expenses	$125,381,877	$158,448,316	$313,129	$284,143,322

See notes to financial statements.

Support Services			Total	
Management and General	Fundraising	Total	2012	2011
-	-	-	$124,906,852	$ 92,186,318
-	-	-	156,862,501	139,979,201
-	-	-	309,010	39,789
$ 3,696	$ 4,236	$ 7,932	539,000	1,080,491
39	-	39	418,578	345,480
404,870	110,541	515,411	827,946	796,240
31,758	8,419	40,177	64,004	61,157
18,569	7,576	26,145	41,950	38,552
17,920	7,681	25,601	55,376	51,683
11,541	-	11,541	11,541	5,754
27,918	36,970	64,888	102,797	122,139
3,635	-	3,635	21,639	23,970
6,775	10,511	17,286	17,898	26,093
25,914	798	26,712	44,519	30,886
9,607	-	9,607	9,607	10,321
2,264	11,690	13,954	29,009	31,881
189	350	539	539	2,068
34,353	-	34,353	34,353	25,861
8,400	-	8,400	24,010	23,487
18,605	337	18,942	39,526	23,318
-	-	-	547,673	78,322
22,777	710	23,487	24,737	38,504
5,705	890	6,595	7,249	10,789
-	-	-	4,262	5,141
10,563	5,813	16,376	38,175	39,561
8,092	-	8,092	11,240	11,223
2,986	1,010	3,996	4,066	3,479
676,176	207,532	883,708	284,998,057	235,091,708
6,745	-	6,745	35,718	38,628
$682,921	$207,532	$890,453	$285,033,775	$235,130,336

THE BROTHER'S BROTHER FOUNDATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
OPERATING ACTIVITIES		
Changes in net assets	$ 10,999,828	$ 6,978,932
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	35,716	38,628
Realized and unrealized (gain) loss on investment, net	(478,379)	131,589
Inventory	(10,533,459)	(7,286,072)
Changes in assets and liabilities:		
Accounts receivable	(35,140)	(13,804)
Prepaid expenses	(2,662)	(2,436)
Accounts payable and accrued liabilities	45,623	(138,353)
Net Cash Provided By (Used In) Operating Activities	31,527	(291,516)
INVESTING ACTIVITIES		
Purchases of property and equipment	(72,755)	(17,545)
Purchases of investments	(1,094,956)	(325,000)
Cash Used In Investing Activities	(1,167,711)	(342,545)
Net Decrease In Cash and Cash Equivalents	(1,136,184)	(634,061)
CASH AND CASH EQUIVALENTS		
Beginning of year	1,999,542	2,633,603
End of year	$ 863,358	$ 1,999,542

See notes to financial statements.

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, 2012 and 2011 were $775,226 and $735,892, respectively.

The Foundation's six largest contributors in 2012 and 2011 donated medical and educational materials that aggregated 90% and 98% of all contributed materials in 2012 and 2011, respectively. Three of the contributors in 2012 and in 2011 donated 12% or more of medical and educational materials received in the respective years. One contributor gave 30%; one contributor gave 27%; and one contributor gave 15% of the total received in 2012. One contributor gave 38%; one contributor gave 31%; and one contributor gave 12% of the total received in 2011.

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.

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. At December 31, 2012 and 2011, the Foundation had $555,431 and $748,142, respectively of restricted funds.

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, 2012 and 2011 will be immaterial. It is reasonably possible that the Foundation's estimate of the allowance for doubtful accounts will change. As of December 31, 2012 and 2011, 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. The Foundation evaluates the fair value of the inventory donated during the year and may make additional adjustments based on their evaluation. During 2012, inventory adjustments, mostly related to the Foundation's planned decision to destroy medical supplies, totaled approximately $2.8 million. (See Note 5.)

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 2012 or 2011.

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 $419,000 and $345,000 at December 31, 2012 and 2011, 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, 2008.

Reclassifications - Certain previously reported amounts have been reclassified to conform to the current year's presentation. These reclassifications had no effect on previously reported net assets or change in net assets.

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:

	2012		2011	
	Market	Cost	Market	Cost
Money market fund	$ 113,888	$ 113,888	$ 1,000,359	$ 1,000,359
Fixed-income mutual funds:				
Other fixed income	3,479,958	3,414,232	1,921,702	1,903,288
U.S. common stocks:				
Energy	48,711	44,318	99,201	90,384
Materials	9,407	7,079	19,167	15,930
Industrials	27,638	22,367	75,142	56,281
Consumer discretionary	49,123	37,729	70,502	67,460
Consumer staples	39,020	32,347	71,618	61,396
Healthcare	51,613	41,698	85,734	80,838
Financials	75,274	65,742	82,625	90,150
Information technology	77,467	49,534	145,751	113,872
Telecommunications services	6,068	4,668	13,003	11,151
Utilities	15,415	13,663	22,890	20,628
Equity mutual funds:				
Large cap funds	1,170,316	1,117,099	357,882	334,157
Mid cap funds	325,604	325,981	107,498	90,085
Small cap funds	207,694	209,059	131,110	141,006
Small mid-cap funds	-	-	104,695	122,967
International-developed	300,833	276,703	266,116	270,111
Emerging markets	395,295	387,518	271,618	294,031
Other	39,641	40,135	-	-
Other equity funds	106,120	108,694	119,137	124,248
Total investments	$ 6,539,085	$ 6,312,454	$ 4,965,750	$ 4,888,342

NOTE 3 - INVESTMENTS (Continued)

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

	2012	2011
Interest	$ 2,042	$ 7,301
Dividends	120,534	95,140
General and administrative expense	(34,393)	(18,344)
Endowment transfer	6,605	6,069
Realized and unrealized gains (losses), net	392,992	(208,410)
	$ 487,780	$ (118,244)

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:

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, 2012 and 2011, the Foundation's investments in equity and fixed-income mutual funds, other equity 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;

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

- 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, 2012 and 2011.

NOTE 5 - INVENTORY

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

	2012	2011
Pharmaceuticals	$ 24,111,236	$ 11,545,333
Medical equipment and supplies	1,975,905	2,176,555
Education	1,817,767	3,684,678
Humanitarian	56,461	21,344
	$ 27,961,369	$ 17,427,910

NOTE 6 - PROPERTY AND EQUIPMENT

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

	2012	2011
Building and improvements	$ 1,147,645	$ 1,098,442
Equipment and furniture	154,641	131,088
Land	213,201	213,201
	1,515,487	1,442,731
Less - Accumulated depreciation	361,920	326,203
Property and equipment, net	$ 1,153,567	$ 1,116,528

NOTE 7 - RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2012 and 2011 of $555,431 and $748,142, respectively, are available for worldwide health and educational programs. Temporarily restricted assets available for use in the Behan Warehouse Renovation totaled approximately $176,000 at December 31, 2012. Temporarily restricted assets available for use in the Haiti earthquake relief totaled approximately $30 and $160,000 at December 31, 2012 and 2011, respectively.

Temporarily restricted net assets were released as follows:

	2012	2011
Health and welfare activities	$ 635,407	$ 1,240,354

Permanently restricted net assets at December 31, 2012 and 2011 of $361,186 and $325,000, 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.

NOTE 8 - ENDOWMENT (Continued)

Donor-restricted endowment funds comprise the permanently restricted net asset balance of $361,186 and $325,000 at December 31, 2012 and 2011, respectively.

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

	2012	2011
Endowment net assets beginning of year	$ 325,000	$ 350,690
Investment return:		
Investment income	7,339	5,889
Net appreciation (depreciation)	38,380	(24,641)
	45,719	(18,752)
Appropriation of endowment assets for expenditure	(6,605)	(6,069)
General and administrative expense	(2,928)	(869)
Endowment net assets end of year	$ 361,186	$ 325,000

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 2012 and 2011, the spendable return totaled 2% or $7,000 and 2% or $6,000, 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 2012 and 2011, the Foundation's contributions to the plan approximated $42,000 and $39,000, 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 June 24, 2013, the date on which the financial statements were available to be issued.