THE BROTHER'S BROTHER FOUNDATION
Pittsburgh, Pennsylvania

Financial Statements
For the years ended December 31, 2017 and 2016

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, 2017, 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.

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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, 2017, 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.

Report on Summarized Comparative Information

We have previously audited The Brother's Brother Foundation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 30, 2017. In our opinion, the summarized comparative information presented herein for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
July 20, 2018

THE BROTHER’S BROTHER FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Cash and cash equivalents	$ 820,339	$ 372,131
Restricted cash and cash equivalents	1,759,946	738,210
	2,580,285	1,110,341
Accounts receivable	71,786	102,311
Investments	5,460,296	5,520,875
Inventory	22,787,189	42,075,112
Prepaid expenses	40,748	32,868
Property and equipment, net	2,032,066	1,947,128
Total Assets	$32,972,370	$50,788,635
LIABILITIES		
Accounts payable and accrued liabilities	$ 636,818	$ 159,651
NET ASSETS		
Unrestricted	30,123,348	49,499,759
Temporarily restricted	1,763,984	742,834
Permanently restricted	448,220	386,391
Total Net Assets	32,335,552	50,628,984
Total Liabilities and Net Assets	$32,972,370	$50,788,635

See notes to financial statements.

THE BROTHER'S BROTHER FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017
(with comparative totals for the year ended December 31, 2016)

	Unrestricted		
	General Operating	In-Kind	Total
REVENUE AND PUBLIC SUPPORT			
Donated materials and supplies	-	$90,077,966	$90,077,966
Individuals	$1,341,132	-	1,341,132
Foundations	286,803	-	286,803
Program service fees	433,014	-	433,014
Corporations	37,049	-	37,049
Civic and social clubs	9,390	-	9,390
Religious organizations	39,914	-	39,914
	2,147,302	90,077,966	92,225,268
Investment income	703,550	-	703,550
Rental income	31,925	-	31,925
Special event income	-	-	-
Other income	17,011		17,011
Net assets released from restrictions	1,402,725	-	1,402,725
Total Revenue And Public Support	4,302,513	90,077,966	94,380,479
FUNCTIONAL EXPENSES			
Program services	2,541,205	109,244,347	111,785,552
Support services:			
Management and general	1,660,936	-	1,660,936
Fundraising	310,402	-	310,402
Special events	-	-	-
Total Support Services	1,971,338	-	1,971,338
Total Functional Expenses	4,512,543	109,244,347	113,756,890
Changes In Net Assets	(210,030)	(19,166,381)	(19,376,411)
NET ASSETS			
Beginning of year	7,686,472	41,813,287	49,499,759
End of year	$7,476,442	$22,646,906	$30,123,348

See notes to financial statements.

Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
-	-	$ 90,077,966	$214,201,697
$ 925,072	-	2,266,204	1,176,301
1,304,743	-	1,591,546	583,711
-	-	433,014	712,184
135,731	-	172,780	25,858
11,150	-	20,540	17,430
39,602	-	79,516	50,409
2,416,298	-	94,641,566	216,767,590
-	$ 69,406	772,956	271,718
-	-	31,925	40,500
-	-	-	-
		17,011	
(1,395,148)	(7,577)	-	-
1,021,150	61,829	95,463,458	217,079,808
-	-	111,785,552	197,468,553
-	-	1,660,936	1,377,327
-	-	310,402	275,624
-	-	-	4,037
-	-	1,971,338	1,656,988
-	-	113,756,890	199,125,541
1,021,150	61,829	(18,293,432)	17,954,267
742,834	386,391	50,628,984	32,674,717
$1,763,984	$448,220	$ 32,335,552	$ 50,628,984

THE BROTHER'S BROTHER FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
(with comparative totals for the year ended December 31, 2016)

	Program Services			
	International Education	International Health	International Humanitarian	Total
Educational materials	$ 5,046,535	-	-	$ 5,046,535
Medical equipment and supplies	-	$104,125,630	-	104,125,630
Humanitarian supplies	-	-	$ 72,182	72,182
Grants	14,208	825,174	-	839,382
Packaging and shipping	30,758	335,073	294,565	660,396
Salaries	46,221	415,989	-	462,210
Payroll taxes	3,403	30,625	-	34,028
Pension	1,114	10,024	-	11,138
Employee benefits - other	5,441	48,971	-	54,412
Consulting services	-	-	-	-
Outside services	1,074	9,666	-	10,740
Utilities	2,297	20,676	-	22,973
Printing expense	32	286	-	318
Maintenance	1,189	10,697	-	11,886
Telephone	195	1,755	-	1,950
Postage	1,886	36,390	-	38,276
Training expense	-	-	-	-
Audit and accounting	-	-	-	-
Insurance	1,770	15,933	-	17,703
Office supplies	1,111	9,995	-	11,106
Purchased program supplies	16,491	150,961	28,591	196,043
Miscellaneous	6,129	55,163	-	61,292
Meals	315	2,832	-	3,147
Truck expense	919	8,271	-	9,190
Travel	1,691	16,032	-	17,723
Rent	533	4,801	-	5,334
Dues and subscriptions	268	2,409	-	2,677
Total Expenses Before Depreciation	5,183,580	106,137,353	395,338	111,716,271
Depreciation	24,248	45,033	-	69,281
Total Functional Expenses	$ 5,207,828	$106,182,386	$395,338	$111,785,552

See notes to financial statements.

Support Services				Total	
Management and General	Fundraising	Special Events	Total	2017	2016
-	-	-	-	$ 5,046,535	$ 21,434,451
-	-	-	-	104,125,630	174,444,135
-	-	-	-	72,182	53,646
$ 3,450	-	-	$ 3,450	842,832	299,189
17,181	-	-	17,181	677,577	411,436
835,032	$166,887	-	1,001,919	1,464,129	1,267,947
69,454	12,074	-	81,528	115,556	98,114
44,181	6,978	-	51,159	62,297	53,193
71,435	10,613	-	82,048	136,460	119,350
19,510	-	-	19,510	19,510	-
42,671	91,889	-	134,560	145,300	82,909
7,124	-	-	7,124	30,097	21,414
23,798	314	-	24,112	24,430	33,210
29,853	-	-	29,853	41,739	57,284
16,157	-	-	16,157	18,107	15,966
3,113	12,500	-	15,613	53,889	50,932
528	-	-	528	528	1,444
34,494	-	-	34,494	34,494	28,245
15,698	557	-	16,255	33,958	36,720
26,869	-	-	26,869	37,975	45,658
-	-	-	-	196,043	157,284
63,746	250	-	63,996	125,288	50,418
14,116	1,188	-	15,304	18,451	17,801
20,190	-	-	20,190	29,380	25,019
35,362	6,277	-	41,639	59,362	41,436
211,015	-	-	211,015	216,349	166,766
12,018	875	-	12,893	15,570	11,965
1,616,995	310,402	-	1,927,397	113,643,668	199,025,932
43,941	-	-	43,941	113,222	99,609
$1,660,936	$310,402	-	$1,971,338	$113,756,890	$199,125,541

THE BROTHER’S BROTHER FOUNDATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING ACTIVITIES		
Changes in net assets	$(18,293,432)	$ 17,954,267
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	113,222	99,609
(Gain) loss on disposition of assets	(13,912)	5,248
Realized and unrealized gain on investment, net	(730,696)	(263,820)
Inventory	19,287,923	(18,274,354)
Changes in assets and liabilities:		
Accounts receivable	30,525	2,358
Prepaid expenses	(7,880)	(1,146)
Accounts payable and accrued liabilities	477,167	13,395
Net Cash Provided By (Used In) Operating Activities	862,917	(464,443)
INVESTING ACTIVITIES		
Purchases of investments	(43,725)	-
Proceeds from sale of investments	835,000	100,656
Purchases of property and equipment	(214,131)	(257,447)
Proceed from sale of property and equipment	29,883	5,248
Net Cash Provided By (Used In) Investing Activities	607,027	(151,543)
Net Increase (Decrease) In Cash And Cash Equivalents	1,469,944	(615,986)
CASH AND CASH EQUIVALENTS		
Beginning of year	1,110,341	1,726,327
End of year	$ 2,580,285	$ 1,110,341

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. 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, 2017 and 2016 were approximately $433,000 and $712,000, respectively.

During 2017 and 2016, respectively, the Foundation had three and two contributors that donated medical materials that aggregated 84% and 65% of total contributed materials.

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 that 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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 and 2016 will be immaterial. It is reasonably possible that the Foundation's estimate of the allowance for doubtful accounts will change. As of December 31, 2017 and 2016, 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 net realizable value on the date of donation. In accordance with FASB ASC topic Fair Value Measurement, net realizable 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 net realizable value. The Foundation evaluates the net realizable value of the inventory donated during the year and may make additional adjustments based on the evaluation. During 2017 and 2016, inventory adjustments based on the net realizable value at the date of donation related mostly to the Foundation's planned decision to destroy medical supplies, and totaled approximately $21,000,000 and $7,500,000, respectively. These inventory adjustments 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. In addition to the inventory adjustment noted above, due to changes in the inputs of the CMS published pricing guidelines, there was a significant amount of pharmaceutical inventory written down during 2016 approximating $5,900,000.

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 $1,000 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 2017 or 2016.

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 $678,000 and $411,000 for the years ended December 31, 2017 and 2016, respectively.

Advertising Costs - Advertising costs are charged to expense during the period in which they are incurred. Total advertising costs were approximately $96,000 and $61,000 for the years ended December 31, 2017 and 2016, 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, 2014.

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.

Though Board of Director (Board) members have donated a substantial amount of time to the operation of the Foundation, no amounts have been reflected in the accompanying financial statements for donated services because no objective basis is available to measure the value of such services.

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 an entity 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 Foundation 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 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2016, the FASB completed Phase I of its Presentation of Financial Statements of Not-for-Profit Entities and issued ASU No. 2016-14 Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14), which is intended to simplify and improve not-for-profit financial reporting.

Specifically, ASU 2016-14:

- Revises the net asset classification scheme to two classes (net assets with donor restrictions and net assets without donor restrictions) instead of the previous three, while maintaining the requirement to report total net assets and changes in the classes of and total net assets.

- Continues to allow for a choice between the direct and indirect method of reporting operating cash flows; however, presentation of the indirect reconciliation is no longer required if using the direct method.

- Enhances disclosures for:
  - Self-imposed limits on the use of resources without donor-imposed restrictions
  - Composition of net assets with donor restrictions, and how the restrictions affect the use of resources
  - Qualitative disclosures on how a not-for-profit manages its available liquid resources, to meet cash needs for general expenditures within one year of the stamen of financial position date
  - Quantitative disclosures that communicate the availability of financial assets to meet cash needs for general expenditures within one year of the statement of financial position date
  - Methods used to allocate costs among program and support functions

- Requires the presentation of expenses by nature as well as function, including an analysis of expenses showing the relationship between functional and natural classification for all expenses.

- Updates the accounting and disclosure requirements for underwater endowment funds, which include required disclosure of (1) policy concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate original gift amount (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater, which are to be classified as part of net assets with donor restrictions.

- Requires net presentation of investment expenses against investment return on the statement of activities and changes in net assets and eliminates the requirement to disclose investment expenses that have been netted.

- Requires the use of, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expiration of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassification of amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restrictions over the estimated useful life of the acquired asset.)

ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early application permitted. The Foundation is currently in the process of evaluating the impact that the adoption of ASU 2016-14 will have on its financial statements and related disclosures.

Subsequent Events - Management has evaluated subsequent events through July 20, 2018, 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:

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Money Market Fund	$ 9,784	$ 9,784	$ 18,536	$ 18,536
Fixed-Income Mutual Funds	1,105,224	1,129,066	1,447,567	1,491,714
Equity Mutual Funds	605,044	498,750	891,384	827,382
TIFF Multi Asset fund	3,740,244	4,135,172	3,163,388	3,582,109
Total investments	$ 5,460,296	$ 5,772,772	$ 5,520,875	$ 5,919,741

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:

	2017	2016
Interest	$ 958	$ 919
Dividends	45,196	51,999
General and administrative expense	(11,471)	(11,891)
Endowment transfer	7,577	7,635
Capital gains and other additions	531,667	199,024
Realized and unrealized gain, net	199,029	24,032
	$ 772,956	$ 271,718

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, 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 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:

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

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 that 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, 2017 and 2016.

The Foundation has the following financial instruments whose carrying amounts on its statement of financial position at December 31, 2017 and 2016 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, 2017			
	Level 1	Level 2	Level 3	Total
Money market fund	$ 9,784	-	-	$ 9,784
Fixed income mutual funds:				
Other fixed income	1,105,224	-	-	1,105,224
Equity mutual funds:				
Large cap funds	366,067	-	-	366,067
Mid cap funds	97,541	-	-	97,541
Small cap funds	79,680	-	-	79,680
International developed	44,998	-	-	44,998
Emerging markets	16,758	-	-	16,758
Assets in the fair value hierarchy	$ 1,720,052	-	-	1,720,052
Investments measured at NAV (a)				
TIFF multi-asset fund				3,740,244
Total fair value of assets				$ 5,460,296

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

	Fair Value Measurement at December 31, 2016			
	Level 1	Level 2	Level 3	Total
Money market fund	$ 18,536	-	-	$ 18,536
Fixed income mutual funds:				
Other fixed income	1,447,567	-	-	1,447,567
Equity mutual funds:				
Large cap funds	572,582	-	-	572,582
Mid cap funds	138,744	-	-	138,744
Small cap funds	102,615	-	-	102,615
International developed	57,441	-	-	57,441
Emerging markets	20,002	-	-	20,002
Assets in the fair value hierarchy	$ 2,357,487	-	-	2,357,487
Investments measured at NAV (a)				
TIFF multi-asset fund				3,163,388
Total fair value of assets				$ 5,520,875

(a) In accordance with the Foundation's adoption of ASU 2015-07 and Codification Subtopic 820-10, certain investments were measured at NAV per share (or its equivalent) as a practical expedient, and have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of fair value hierarchy line items presented in the statements of financial position.

The Foundation did not have any financial assets or liabilities categorized as Level 2 or Level 3 at December 31, 2017 and 2016.

NOTE 5 - INVENTORY

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

	2017	2016
Pharmaceuticals	$ 21,165,253	$ 39,352,032
Medical equipment and supplies	967,637	1,336,658
Education	610,438	1,373,287
Humanitarian	43,861	13,135
	$ 22,787,189	$ 42,075,112

NOTE 6 - PROPERTY AND EQUIPMENT

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

	2017	2016
Building and improvements	$ 1,928,329	$ 1,871,232
Equipment and furniture	585,291	468,186
	2,513,620	2,339,418
Less - Accumulated depreciation	694,755	605,491
	1,818,865	1,733,927
Land	213,201	213,201
Property and equipment, net	$ 2,032,066	$ 1,947,128

NOTE 7 - RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2017 and 2016 of $1,763,984 and $742,834, respectively, are available for worldwide health and educational programs. Releases of temporarily restricted net assets were $1,395,148 and $579,196 for the years ended December 31, 2017 and 2016, respectively.

Permanently restricted net assets at December 31, 2017 and 2016, of $448,220 and $386,391, 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 $450,017 and $386,391 at December 31, 2017 and 2016, respectively.

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

	2017	2016
Endowment net assets beginning of year	$ 386,391	$ 377,825
Investment return:		
Investment income	60,268	19,573
Net appreciation (depreciation)	9,138	(3,372)
	455,797	394,026
Appropriation of endowment assets for expenditure	(7,577)	(7,635)
Endowment net assets end of year	$ 448,220	$ 386,391

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 2017 and 2016, the spendable return totaled 2% or $7,577 and $7,635, 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 $62,000 and $53,000 for 2017 and 2016, 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 - LEASES

The Foundation has a lease agreement for warehouse space, which, as amended, is effective through June 31, 2020. The amendment restated the monthly rent payments to approximately $6,400 for the next two years and $6,500 for the final year.

During November 2016, the Foundation entered into an operating lease agreement for the rental of warehouse space in Maryland on a month-to-month basis. The original terms of the lease agreement called for monthly base rent of approximately $3,631, and additional monthly operating expense overhead charges and a one-month abatement period.

Additionally, from time to time, the Foundation leases office equipment. Each lease agreement is typically effective for a period of five years. The future rental payments are included in the table below.

Total rental expense amounted to approximately $216,000 and $168,000 at December 31, 2017 and 2016, respectively.

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

Year Ending December 31		Amount
2018	$	86,000
2019		88,000
2020		49,000
2021		6,000
2022		3,000
	$	232,000