THE BROTHER'S BROTHER FOUNDATION
Pittsburgh, Pennsylvania

Financial Statements
For the years ended December 31, 2016 and 2015

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, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 27, 2016. In our opinion, the summarized comparative information presented herein for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
June 30, 2017

THE BROTHER'S BROTHER FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	December 31 2016	December 31 2015
ASSETS		
Cash and cash equivalents	$ 372,131	$ 952,579
Restricted cash and cash equivalents	738,210	773,748
	1,110,341	1,726,327
Accounts receivable	102,311	104,669
Investments	5,520,875	5,357,711
Inventory	42,075,112	23,800,758
Prepaid expenses	32,868	31,722
Property and equipment, net	1,947,128	1,799,786
Total Assets	$50,788,635	$32,820,973
LIABILITIES		
Accounts payable and accrued liabilities	$ 159,651	$ 146,256
NET ASSETS		
Unrestricted	49,499,759	31,523,144
Temporarily restricted	742,834	773,748
Permanently restricted	386,391	377,825
Total Net Assets	50,628,984	32,674,717
Total Liabilities and Net Assets	$50,788,635	$32,820,973

See notes to financial statements.

THE BROTHER'S BROTHER FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016
(with comparative totals for the year ended December 31, 2015)

	Unrestricted		
	General Operating	In-Kind	Total
REVENUE AND PUBLIC SUPPORT			
Donated materials and supplies	-	$214,201,697	$214,201,697
Individuals	$1,005,518	-	1,005,518
Foundations	225,311	-	225,311
Program service fees	712,184	-	712,184
Corporations	24,328	-	24,328
Civic and social clubs	17,050	-	17,050
Religious organizations	33,220	-	33,220
	2,017,611	214,201,697	216,219,308
Investment income (loss)	255,517	-	255,517
Rental income	40,500	-	40,500
Special event income	-	-	-
Net assets released from restrictions	586,831	-	586,831
Total Revenue And Public Support	2,900,459	214,201,697	217,102,156
FUNCTIONAL EXPENSES			
Program services	1,536,321	195,932,232	197,468,553
Support services:			
Management and general	1,377,327	-	1,377,327
Fundraising	275,624	-	275,624
Special events	4,037	-	4,037
Total Support Services	1,656,988	-	1,656,988
Total Functional Expenses	3,193,309	195,932,232	199,125,541
Changes In Net Assets	(292,850)	18,269,465	17,976,615
NET ASSETS			
Beginning of year	7,979,322	23,543,822	31,523,144
End of year	$7,686,472	$ 41,813,287	$ 49,499,759

See notes to financial statements.

Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
-	-	$214,201,697	$234,162,007
$170,783	-	1,176,301	2,261,124
358,400	-	583,711	500,126
-	-	712,184	709,248
1,530	-	25,858	22,715
380	-	17,430	41,578
17,189	-	50,409	101,575
548,282	-	216,767,590	237,798,373
-	$ 16,201	271,718	(71,750)
-	-	40,500	39,250
-	-	-	68,632
(579,196)	(7,635)	-	-
(30,914)	8,566	217,079,808	237,834,505
-	-	197,468,553	254,844,860
-	-	1,377,327	1,187,215
-	-	275,624	302,656
-	-	4,037	32,069
-	-	1,656,988	1,521,940
-	-	199,125,541	256,366,800
(30,914)	8,566	17,954,267	(18,532,295)
773,748	377,825	32,674,717	51,207,012
$742,834	$386,391	$ 50,628,984	$ 32,674,717

<u>THE BROTHER'S BROTHER FOUNDATION</u>

<u>STATEMENT OF FUNCTIONAL EXPENSES</u>
<u>FOR THE YEAR ENDED DECEMBER 31, 2016</u>
(with comparative totals for the year ended December 31, 2015)

	Program Services			
	International Education	International Health	International Humanitarian	Total
Educational materials	$21,434,451	-	-	$ 21,434,451
Medical equipment and supplies	-	$174,444,135	-	174,444,135
Humanitarian supplies	-	-	$53,646	53,646
Grants	-	295,154	-	295,154
Packaging and shipping	18,719	390,193	2,500	411,412
Salaries	74,780	294,705	-	369,485
Payroll taxes	5,354	21,430	-	26,784
Pension	1,891	7,941	-	9,832
Employee benefits - other	8,036	33,153	-	41,189
Consulting services	-	-	-	-
Outside services	-	15,000	-	15,000
Utilities	5,805	10,782	-	16,587
Printing expense	14	1,224	-	1,238
Maintenance	5,374	9,981	-	15,355
Telephone	-	-	-	-
Postage	19	36,792	-	36,811
Training expense	40	975	-	1,015
Audit and accounting	-	-	-	-
Insurance	4,525	10,066	-	14,591
Office supplies	6,694	13,455	-	20,149
Purchased program supplies	-	157,284	-	157,284
Miscellaneous	1,572	5,768	-	7,340
Meals	18	604	-	622
Truck expense	5,220	10,281	-	15,501
Travel	1,025	13,106	-	14,131
Rent	1,042	1,934	-	2,976
Dues and subscriptions	16	1,549	-	1,565
Total Expenses Before Depreciation	21,574,595	175,775,512	56,146	197,406,253
Depreciation	21,805	40,495	-	62,300
Total Functional Expenses	$21,596,400	$175,816,007	$56,146	$197,468,553

See notes to financial statements.

Support Services				Total	
Management and General	Fundraising	Special Events	Total	2016	2015
-	-	-	-	$ 21,434,451	$ 25,959,258
-	-	-	-	174,444,135	227,319,941
-	-	-	-	53,646	79,178
$ 4,035	-	-	$ 4,035	299,189	358,271
24	-	-	24	411,436	435,387
736,963	$161,499	-	898,462	1,267,947	1,150,926
59,657	11,673	-	71,330	98,114	91,003
34,975	8,386	-	43,361	53,193	50,732
68,721	9,440	-	78,161	119,350	97,104
-	-	-	-	-	13,396
7,305	60,604	-	67,909	82,909	100,208
4,103	724	-	4,827	21,414	25,159
27,106	4,866	-	31,972	33,210	27,828
41,195	734	-	41,929	57,284	32,690
15,966	-	-	15,966	15,966	13,988
2,121	12,000	-	14,121	50,932	48,676
-	429	-	429	1,444	2,043
28,245	-	-	28,245	28,245	23,445
21,667	462	-	22,129	36,720	31,619
25,509	-	-	25,509	45,658	33,875
-	-	-	-	157,284	81,964
38,476	565	$4,037	43,078	50,418	77,613
16,832	347	-	17,179	17,801	10,436
9,518	-	-	9,518	25,019	16,650
24,459	2,846	-	27,305	41,436	48,753
163,790	-	-	163,790	166,766	149,152
9,351	1,049	-	10,400	11,965	12,322
1,340,018	275,624	4,037	1,619,679	199,025,932	256,291,617
37,309	-	-	37,309	99,609	75,183
$1,377,327	$275,624	$4,037	$1,656,988	$199,125,541	$256,366,800

THE BROTHER'S BROTHER FOUNDATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
OPERATING ACTIVITIES		
Changes in net assets	$ 17,954,267	$(18,532,295)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	99,609	75,183
Loss on disposition of assets	5,248	-
Realized and unrealized (loss) gain on investment, net	(263,820)	67,392
Inventory	(18,274,354)	19,272,453
Changes in assets and liabilities:		
Accounts receivable	2,358	(4,815)
Prepaid expenses	(1,146)	3,175
Accounts payable and accrued liabilities	13,395	(5,219)
Net Cash (Used In) Provided By Operating Activities	(464,443)	875,874
INVESTING ACTIVITIES		
Purchases of investments	-	(466,081)
Proceeds from sale of investments	100,656	-
Purchases of property and equipment	(257,447)	(165,920)
Proceed from sale of property and equipment	5,248	-
Net Cash Used In Investing Activities	(151,543)	(632,001)
Net (Decrease) Increase In Cash And Cash Equivalents	(615,986)	243,873
CASH AND CASH EQUIVALENTS		
Beginning of year	1,726,327	1,482,454
End of year	$ 1,110,341	$ 1,726,327

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, 2016 and 2015 were $712,184 and $709,248, respectively.

The Foundation's largest contributors donated medical and educational materials that aggregated 85% and 92% of all contributed materials in 2016 and 2015, respectively. During 2016, two contributors donated 32% or more of medical and educational materials received in 2016, and three contributors donated more than 10% in 2015. Two contributors gave 32% of the total received in 2016. One contributor gave 34%; one contributor gave 23% and one contributor gave 19% of the total received in 2015

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.

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, 2016 and 2015 will be immaterial. It is reasonably possible that the Foundation's estimate of the allowance for doubtful accounts will change. As of December 31, 2016 and 2015, 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 Measurement, 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 2016 and 2015, 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 $7,500,000 and $1,700,000, 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. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2016 or 2015.

Shipping and Handling Costs - The Foundation records the costs of shipping and handling in program services. These costs were approximately $411,000 and $435,000 for the years ended December 31, 2016 and 2015, 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, 2013.

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' 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 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 balance sheet date
  - Quantitative disclosures that communicate the availability of financial assets to meet cash needs for general expenditures within one year of the balance sheet 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 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 June 30, 2017, 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:

	2016		2015	
	Fair	Cost	Fair	Cost
Money Market Fund	$ 18,536	$ 18,536	$ 18,331	$ 18,331
Fixed-Income Mutual Funds	1,447,567	1,491,714	1,483,635	1,536,493
Equity Mutual Funds	891,384	827,382	827,007	869,772
TIFF Multi Asset fund	3,163,388	3,582,109	3,028,738	3,581,831
Total Investments	$ 5,520,875	$ 5,919,741	$ 5,357,711	$ 6,006,427

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:

	2016	2015
Interest	$ 919	$ 1,423
Dividends	51,999	84,298
General and administrative expense	(11,891)	(11,463)
Endowment transfer	7,635	7,614
Capital gains and other additions	199,024	157,063
Realized and unrealized gain (loss), net	24,032	(310,685)
	$ 271,718	$ (71,750)

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.

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, 2016 and 2015.

The Foundation has the following financial instruments whose carrying amounts on its statement of financial position at December 31, 2016 and 2015 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, 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
TIFF multi-asset fund	3,163,388	-	-	3,163,388
	$ 5,520,875	-	-	$ 5,520,875

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

	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 Foundation did not have any financial assets or liabilities categorized as Level 3 at December 31, 2016 and 2015.

NOTE 5 - INVENTORY

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

	2016	2015
Pharmaceuticals	$ 39,352,032	$ 17,915,414
Medical equipment and supplies	1,336,658	1,815,183
Education	1,373,287	4,041,665
Humanitarian	13,135	28,496
	$ 42,075,112	$ 23,800,758

NOTE 6 - PROPERTY AND EQUIPMENT

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

	2016	2015
Building and improvements	$ 1,871,232	$ 1,695,357
Equipment and furniture	468,185	397,109
Land	213,201	213,201
	2,552,618	2,305,667
Less - Accumulated depreciation	605,490	505,881
Property and equipment, net	$ 1,947,128	$ 1,799,786

NOTE 7 - RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2016 and 2015 of $742,834 and $773,748, respectively, are available for worldwide health and educational programs. Releases of temporarily restricted net assets were $579,196 and $777,589 as of December 31, 2016 and 2015, respectively.

Permanently restricted net assets at December 31, 2016 and 2015 of $386,391 and $377,285, 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 $386,391 and $377,825 at December 31, 2016 and 2015, respectively.

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

	2016	2015
Endowment net assets beginning of year	$ 377,825	$ 392,021
Investment return:		
Investment income	19,573	20,503
Net depreciation	(3,372)	(27,085)
	16,201	385,439
Appropriation of endowment assets for expenditure	(7,635)	(7,614)
Endowment net assets end of year	$ 386,391	$ 377,825

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 2016 and 2015, the spendable return totaled 2% or $7,635 and $7,614, 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 $42,000 and $46,000 for 2016 and 2015, 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

During May 2013, the Foundation entered into an operating lease agreement for the rental of warehouse space in Virginia through May 2017. The original 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. The 2015 extension agreement called for monthly base rent of $6,062 for the period May 2016 through May 2017.

During November 2016, the Foundation entered into an operating lease agreement for the rental of warehouse space in Maryland through December 2017. 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.

Total rental expense amounted to approximately $168,000 and $149,000 at December 31, 2016 and 2015, respectively.

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

Year Ending December 31	Base Rent
2017	$ 73,870