

THE BROTHER'S BROTHER FOUNDATION
Pittsburgh, Pennsylvania

Financial Statements
For the years ended December 31, 2019 and 2018
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 statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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 (U.S. GAAP); 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
June 19, 2020

THE BROTHER'S BROTHER FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	December 31	
	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 464,307	\$ 462,223
Restricted cash and cash equivalents	674,855	1,107,802
	<u>1,139,162</u>	<u>1,570,025</u>
Accounts receivable	59,084	26,440
Investments	3,117,809	4,245,391
Inventory	7,368,490	15,679,555
Prepaid expenses	68,569	52,185
Property and equipment, net	<u>2,260,683</u>	<u>2,164,613</u>
Total Assets	<u>\$14,013,797</u>	<u>\$23,738,209</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 245,439	\$ 253,956
NET ASSETS		
Net Assets Without Donor Restrictions	12,632,628	21,979,417
Net Assets With Donor Restrictions:		
Purpose restricted	678,892	1,111,840
Perpetual in nature	456,838	392,996
	<u>1,135,730</u>	<u>1,504,836</u>
Total Net Assets	<u>13,768,358</u>	<u>23,484,253</u>
Total Liabilities And Net Assets	<u>\$14,013,797</u>	<u>\$23,738,209</u>

See notes to financial statements.

THE BROTHER'S BROTHER FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Without Donor Restrictions</u>			<u>With Donor Restrictions</u>	
	<u>General Operating</u>	<u>In-Kind</u>	<u>Total</u>	<u>Restrictions</u>	<u>Total</u>
REVENUE AND PUBLIC SUPPORT					
Donated materials and supplies	-	\$53,014,326	\$53,014,326	-	\$53,014,326
Individuals	\$1,672,523	-	1,672,523	\$ 186,760	1,859,283
Foundations	234,465	-	234,465	119,480	353,945
Program service fees	267,015	-	267,015	-	267,015
Corporations	36,287	-	36,287	6,244	42,531
Civic and social clubs	6,015	-	6,015	9,600	15,615
Religious organizations	18,462	-	18,462	28,025	46,487
	<u>2,234,767</u>	<u>53,014,326</u>	<u>55,249,093</u>	<u>350,109</u>	<u>55,599,202</u>
Investment income, net	467,522	-	467,522	71,809	539,331
Rental income	5,000	-	5,000	-	5,000
Net assets released from restrictions	791,024	-	791,024	(791,024)	-
	<u>3,498,313</u>	<u>53,014,326</u>	<u>56,512,639</u>	<u>(369,106)</u>	<u>56,143,533</u>
FUNCTIONAL EXPENSES					
Program services	2,044,461	61,287,870	63,332,331	-	63,332,331
Support services:					
Management and general	2,207,464	-	2,207,464	-	2,207,464
Fundraising	319,633	-	319,633	-	319,633
Total Support Services	<u>2,527,097</u>	<u>-</u>	<u>2,527,097</u>	<u>-</u>	<u>2,527,097</u>
Total Functional Expenses	<u>4,571,558</u>	<u>61,287,870</u>	<u>65,859,428</u>	<u>-</u>	<u>65,859,428</u>
Changes In Net Assets	(1,073,245)	(8,273,544)	(9,346,789)	(369,106)	(9,715,895)
NET ASSETS					
Beginning of year	<u>6,493,729</u>	<u>15,485,688</u>	<u>21,979,417</u>	<u>1,504,836</u>	<u>23,484,253</u>
End of year	<u>\$5,420,484</u>	<u>\$ 7,212,144</u>	<u>\$12,632,628</u>	<u>\$ 1,135,730</u>	<u>\$13,768,358</u>

See notes to financial statements.

THE BROTHER'S BROTHER FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>			<u>With Donor Restrictions</u>	
	<u>General Operating</u>	<u>In-Kind</u>	<u>Total</u>	<u>Restrictions</u>	<u>Total</u>
REVENUE AND PUBLIC SUPPORT					
Donated materials and supplies	-	\$92,071,032	\$92,071,032	-	\$92,071,032
Individuals	\$1,678,943	-	1,678,943	\$ 311,625	1,990,568
Foundations	209,422	-	209,422	644,453	853,875
Program service fees	366,375	-	366,375	-	366,375
Corporations	27,560	-	27,560	77,700	105,260
Civic and social clubs	7,403	-	7,403	13,050	20,453
Religious organizations	37,677	-	37,677	27,971	65,648
	<u>2,327,380</u>	<u>92,071,032</u>	<u>94,398,412</u>	<u>1,074,799</u>	<u>95,473,211</u>
Investment loss, net	(139,848)	-	(139,848)	(45,460)	(185,308)
Rental income	5,500	-	5,500	-	5,500
Special event income	31,000	-	31,000	-	31,000
Other income	61	-	61	-	61
Net assets released from restrictions	<u>1,736,707</u>	<u>-</u>	<u>1,736,707</u>	<u>(1,736,707)</u>	<u>-</u>
Total Revenue And Public Support	<u>3,960,800</u>	<u>92,071,032</u>	<u>96,031,832</u>	<u>(707,368)</u>	<u>95,324,464</u>
FUNCTIONAL EXPENSES					
Program services	2,642,579	99,232,250	101,874,829	-	101,874,829
Support services:					
Management and general	1,900,688	-	1,900,688	-	1,900,688
Fundraising	323,787	-	323,787	-	323,787
Special events	76,459	-	76,459	-	76,459
Total Support Services	<u>2,300,934</u>	<u>-</u>	<u>2,300,934</u>	<u>-</u>	<u>2,300,934</u>
Total Functional Expenses	<u>4,943,513</u>	<u>99,232,250</u>	<u>104,175,763</u>	<u>-</u>	<u>104,175,763</u>
Changes In Net Assets	<u>(982,713)</u>	<u>(7,161,218)</u>	<u>(8,143,931)</u>	<u>(707,368)</u>	<u>(8,851,299)</u>
NET ASSETS					
Beginning of year	<u>7,476,442</u>	<u>22,646,906</u>	<u>30,123,348</u>	<u>2,212,204</u>	<u>32,335,552</u>
End of year	<u>\$6,493,729</u>	<u>\$15,485,688</u>	<u>\$21,979,417</u>	<u>\$ 1,504,836</u>	<u>\$23,484,253</u>

See notes to financial statements.

THE BROTHER'S BROTHER FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Program Services			Total
	International Education	International Health	International Humanitarian	
Educational materials	\$ 9,489,209	-	-	\$ 9,489,209
Pharmaceuticals, medical equipment and supplies	-	\$51,610,251	-	51,610,251
Humanitarian supplies	-	-	\$188,410	188,410
Grants	162	476,707	-	476,869
Packaging and shipping	36,948	362,493	2,504	401,945
Salaries	56,316	506,847	-	563,163
Payroll taxes	4,134	37,204	-	41,338
Pension	2,858	25,720	-	28,578
Employee benefits - other	6,954	62,583	-	69,537
Consulting services	-	-	-	-
Outside services	539	7,631	-	8,170
Utilities	4,188	37,690	-	41,878
Printing expense	456	4,102	-	4,558
Maintenance	1,401	12,607	-	14,008
Telephone	764	6,876	-	7,640
Postage	4,254	45,706	-	49,960
Training expense	3	27	-	30
Audit and accounting	-	-	-	-
Insurance	2,291	20,623	-	22,914
Office supplies	1,932	17,387	-	19,319
Purchased program supplies	6,321	60,865	-	67,186
Miscellaneous	9,660	86,942	-	96,602
Meals	642	5,776	-	6,418
Truck expense	957	8,609	-	9,566
Travel	2,277	21,206	-	23,483
Rent	162	1,457	-	1,619
Dues and subscriptions	108	975	-	1,083
Total Expenses Before Depreciation	9,632,536	53,420,284	190,914	63,243,734
Depreciation	8,860	79,737	-	88,597
Total Functional Expenses	<u>\$ 9,641,396</u>	<u>\$53,500,021</u>	<u>\$190,914</u>	<u>\$ 63,332,331</u>

See notes to financial statements.

Support Services

Management and General	Fundraising	Total	Total
-	-	-	\$ 9,489,209
-	-	-	51,610,251
-	-	-	188,410
\$ 4,000	-	\$ 4,000	480,869
87,980	-	87,980	489,925
1,165,686	\$126,670	1,292,356	1,855,519
90,475	9,650	100,125	141,463
84,865	13,857	98,722	127,300
78,306	11,474	89,780	159,317
22,982	-	22,982	22,982
7,672	129,950	137,622	145,792
6,323	-	6,323	48,201
49,669	4,379	54,048	58,606
50,300	1,000	51,300	65,308
16,934	-	16,934	24,574
1,918	11,550	13,468	63,428
300	-	300	330
42,951	-	42,951	42,951
33,898	169	34,067	56,981
15,008	-	15,008	34,327
-	-	-	67,186
122,048	5,420	127,468	224,070
12,018	83	12,101	18,519
38,272	-	38,272	47,838
38,766	1,555	40,321	63,804
163,021	-	163,021	164,640
11,552	3,876	15,428	16,511
2,144,944	319,633	2,464,577	65,708,311
62,520	-	62,520	151,117
<u>\$2,207,464</u>	<u>\$319,633</u>	<u>\$2,527,097</u>	<u>\$ 65,859,428</u>

THE BROTHER'S BROTHER FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services			Total
	International Education	International Health	International Humanitarian	
Educational materials	\$19,272,342	-	-	\$ 19,272,342
Pharmaceuticals, medical equipment and supplies	-	\$79,886,773	-	79,886,773
Humanitarian supplies	-	-	\$ 73,135	73,135
Grants	-	545,533	-	545,533
Packaging and shipping	30,058	305,848	252,341	588,247
Salaries	53,531	481,780	-	535,311
Payroll taxes	3,947	35,519	-	39,466
Pension	2,591	23,315	-	25,906
Employee benefits - other	5,794	52,144	-	57,938
Consulting services	-	-	-	-
Outside services	4,743	42,686	-	47,429
Utilities	3,911	35,199	-	39,110
Printing expense	32	284	-	316
Maintenance	1,192	10,732	-	11,924
Telephone	389	3,497	-	3,886
Postage	2,069	41,224	-	43,293
Training expense	30	-	-	30
Audit and accounting	-	-	-	-
Insurance	2,128	19,150	-	21,278
Office supplies	1,442	12,980	-	14,422
Purchased program supplies	50,014	460,002	3,876	513,892
Miscellaneous	3,563	32,063	-	35,626
Meals	447	4,022	-	4,469
Truck expense	1,111	10,003	-	11,114
Travel	1,081	20,954	-	22,035
Rent	465	4,184	-	4,649
Dues and subscriptions	175	1,579	-	1,754
Total Expenses Before Depreciation	19,441,055	82,029,471	329,352	101,799,878
Depreciation	7,495	67,456	-	74,951
Total Functional Expenses	<u>\$19,448,550</u>	<u>\$82,096,927</u>	<u>\$329,352</u>	<u>\$101,874,829</u>

See notes to financial statements.

Support Services				
Management and General	Fundraising	Special Events	Total	Total
-	-	-	-	\$ 19,272,342
-	-	-	-	79,886,773
-	-	-	-	73,135
\$ 1,800	-	-	\$ 1,800	547,333
15,770	-	-	15,770	604,017
993,574	\$160,165	-	1,153,739	1,689,050
80,641	11,995	-	92,636	132,102
71,068	9,689	-	80,757	106,663
76,881	11,038	-	87,919	145,857
7,119	-	-	7,119	7,119
41,630	112,868	-	154,498	201,927
8,876	-	-	8,876	47,986
40,347	-	-	40,347	40,663
47,422	-	-	47,422	59,346
18,067	-	-	18,067	21,953
2,393	12,014	-	14,407	57,700
948	-	-	948	978
30,356	-	-	30,356	30,356
23,649	180	-	23,829	45,107
28,797	-	-	28,797	43,219
-	-	-	-	513,892
59,847	653	\$76,459	136,959	172,585
18,824	725	-	19,549	24,018
28,314	-	-	28,314	39,428
27,917	2,785	-	30,702	52,737
195,783	-	-	195,783	200,432
15,117	1,675	-	16,792	18,546
1,835,140	323,787	76,459	2,235,386	104,035,264
65,548	-	-	65,548	140,499
<u>\$1,900,688</u>	<u>\$323,787</u>	<u>\$76,459</u>	<u>\$2,300,934</u>	<u>\$104,175,763</u>

THE BROTHER'S BROTHER FOUNDATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Changes in net assets	\$ (9,715,895)	\$ (8,851,299)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	151,117	140,499
Realized and unrealized (gain) loss on investment, net	(502,079)	247,756
Inventory	8,311,065	7,107,634
Changes in assets and liabilities:		
Accounts receivable	(32,644)	45,346
Prepaid expenses	(16,384)	(11,437)
Accounts payable and accrued liabilities	(8,517)	(382,862)
Net Cash Used In Operating Activities	<u>(1,813,337)</u>	<u>(1,704,363)</u>
INVESTING ACTIVITIES		
Purchases of investments	(20,339)	(1,988,189)
Proceeds from sale of investments	1,650,000	2,955,338
Purchases of property and equipment	<u>(247,187)</u>	<u>(273,046)</u>
Net Cash Provided By Investing Activities	<u>1,382,474</u>	<u>694,103</u>
Net Decrease In Cash And Cash Equivalents	(430,863)	(1,010,260)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,570,025</u>	<u>2,580,285</u>
End of year	<u>\$ 1,139,162</u>	<u>\$ 1,570,025</u>

See notes to financial statements.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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, agricultural and other resources. The Foundation has operations in Pittsburgh, Pennsylvania and northern Virginia.

The Foundation depends principally upon cash donors, donations of materials and supplies, and third-party reimbursement arrangements to carry out its program activities.

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 - 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:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations. Some donor-imposed stipulations are temporary in nature, such as those that may or will be satisfied by actions of the Foundation and/or the passage of time. Other donor-imposed stipulations are perpetual in nature, where the donor stipulates that the assets be maintained in perpetuity by the Foundation.

All unconditional donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is satisfied), net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets without donor restrictions.

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.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019 and 2018 will be immaterial. It is reasonably possible that the Foundation's estimate of the allowance for doubtful accounts will change. As of December 31, 2019 and 2018, no allowance for doubtful accounts is considered necessary.

Investments - Investment securities are carried at fair value based on published quotations, or estimates when such quotations are not available. These valuations may be at other than the current date and are estimated as of the statements of financial position dates. Because of the inherent uncertainty of valuation in the absence of readily ascertainable market values, the estimated values of investments could differ from the values that would have been used had a ready market existed for the investments or if the investments were realized, and the differences could be material. Such investments are, by their nature, generally considered to be long-term investments and are not intended to be liquidated on a short-term basis. Unrealized appreciation on investments is reflected within net investment income (loss) in the statements of activities. Investment income is reported net of internal and external expenses.

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 2019 and 2018, 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 believed not suitable for distribution, and totaled approximately \$13,900,000 and \$12,700,000, 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.

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 2019 or 2018.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 \$490,000 and \$604,000 for the years ended December 31, 2019 and 2018, respectively.

Advertising Costs - Advertising costs are charged to expense during the period in which they are incurred. Total advertising costs were approximately \$133,000 and \$115,000 for the years ended December 31, 2019 and 2018, 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, 2016.

Donated Services - The Foundation recognizes donated services that create or enhance nonfinancial 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.

Recently Adopted Accounting Pronouncement - Effective January 1, 2019 the Foundation adopted ASU 2014-09, Revenue from Contracts with Customers (ASC 606). ASC 606 requires an entity to recognize revenue depicting the transfer of goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 resulted in enhanced disclosures. Based on the evaluation process and review of contracts with customers, the timing and amount of revenue recognized based on ASC 606 is consistent with the revenue recognition policy under previous guidance. In accordance with ASC 606, the Foundation has elected to apply the practical expedient that permits an entity to only restate contracts that are not completed at the date of initial adoption and has applied the modified retrospective adoption method. The adoption of ASC 606 did not have a material impact on the results of operations, cash flows or financial position. Accordingly, no adjustment was recorded to the financial statements as of January 1, 2019.

In June 2018, the FASB has issued ASU No. 2018-08 Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08) to clarify and improve the scope and accounting guidance for contributions received and contributions made. The amendments in ASU 2018-08 should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for transactions in which the entity serves as the resource recipient for annual periods beginning after December 15, 2018. For transactions in which the entity serves as the resource provider, ASU 2018-08 is effective for annual periods beginning after December 15, 2019. The Foundation adopted the provisions of ASU 2018-08 in its financial statements in the current year with no significant impact.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements - 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, 2021, 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.

In August 2018, the FASB issued ASU No. 2018-13 Fair Value Measurement (Topic 820): Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13), which clarifies that entities should disclose information about the uncertainty of fair value measurements as of the reporting date. ASU 2018-13 removes the requirement to disclose the amount and reasons for transfers between Level 1 and 2 of the fair value hierarchy table, the policy for timing of transfers between levels, the valuation processes for Level 3 fair value measurements, and the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. ASU 2018-13 requires transfers out of and into Level 3 and purchases and issues of Level 3 assets and liabilities to be disclosed. Also required to be disclosed is liquidation timing of an investee's assets and the date when restrictions from redemption might lapse. ASU 2018-13 is effective for nonpublic entities for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. A reporting entity should apply amendments retrospectively to all periods presented. Early application is permitted. The Foundation is currently in the process of evaluating the impact that the adoption of ASU 2018-13 will have on its financial statements and related disclosures.

NOTE 3 - LIQUIDITY AND AVAILABILITY

The Foundation receives grants and contributions with donor restrictions to be used in accordance with the stated purpose or associated time restriction. These funds are not available to be used as operating funds in the year received.

The Foundation maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due. The foundation manages its cash available to meet general and program expenditures by forecasting future needs and activities, and proactively applying for anticipated funds needed.

The Foundation's cash flows have seasonal variations during the year, attributable to revenue fluctuations tied to specific events. Grant funds received as restricted due to time or purpose are used accordingly, while other revenue is not restricted and can be accessed for operational requirements.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 - LIQUIDITY AND AVAILABILITY (Continued)

The table below presents financial assets available for general expenditures within one year at December 31:

	<u>2019</u>	<u>2018</u>
Total financial assets:		
Cash and cash equivalents	\$ 464,307	\$ 462,223
Restricted cash and cash equivalents	674,855	1,107,802
Accounts receivable	59,084	26,440
Investments not subject to donor restriction	2,660,971	3,852,395
Endowment - Spending rate appropriation	8,689	8,169
	<u>3,867,906</u>	<u>5,457,029</u>
Less donor-imposed restrictions:		
Funds subject to purpose restrictions	<u>678,892</u>	<u>1,111,840</u>
Financial assets available to meet general expenditures	<u>\$ 3,189,014</u>	<u>\$ 4,345,189</u>

NOTE 4 - INVESTMENTS

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

	<u>2019</u>		<u>2018</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Money Market Fund	\$ 27,473	\$ 27,473	\$ 63,331	\$ 63,331
Fixed-Income Mutual Funds	585,181	576,485	1,599,293	1,658,963
Equity Mutual Funds	302,428	276,580	702,459	769,925
TIFF Multi-Asset Fund	<u>2,202,727</u>	<u>2,457,140</u>	<u>1,880,308</u>	<u>2,480,590</u>
Total investments	<u>\$ 3,117,809</u>	<u>\$ 3,337,678</u>	<u>\$ 4,245,391</u>	<u>\$ 4,972,809</u>

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

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4 - INVESTMENTS (Continued)

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

	<u>2019</u>	<u>2018</u>
Interest	\$ 939	\$ 1,526
Dividends	37,303	66,705
General and administrative expense	(8,957)	(15,547)
Endowment transfer	7,967	9,764
Capital gains and other additions	14,034	58,222
Realized and unrealized gain (loss), net	<u>488,045</u>	<u>(305,978)</u>
	<u>\$ 539,331</u>	<u>\$ (185,308)</u>

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

NOTE 5 - 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:

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 BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5 - FAIR VALUE MEASUREMENT (Continued)

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 on 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, 2019 and 2018.

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, 2019			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 27,473	-	-	\$ 27,473
Fixed-income mutual funds:				
Other fixed income	585,181	-	-	585,181
Equity mutual funds:				
Large cap funds	194,597	-	-	194,597
Mid cap funds	46,282	-	-	46,282
Small cap funds	32,999	-	-	32,999
International developed	19,443	-	-	19,443
Emerging markets	9,107	-	-	9,107
Assets in the fair value hierarchy	\$ 915,082	-	-	915,082
Investments measured at NAV (a)				
TIFF multi-asset fund				2,202,727
Total fair value of assets				\$ 3,117,809

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5 - FAIR VALUE MEASUREMENT (Continued)

Fair Value Measurement at December 31, 2018				
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 63,331	-	-	\$ 63,331
Fixed-income mutual funds:				
Other fixed income	1,599,293	-	-	1,599,293
Equity mutual funds:				
Large cap funds	446,805	-	-	446,805
Mid cap funds	104,228	-	-	104,228
Small cap funds	84,557	-	-	84,557
International developed	48,200	-	-	48,200
Emerging markets	18,669	-	-	18,669
Assets in the fair value hierarchy	\$ 2,365,083	-	-	\$ 2,365,083
Investments measured at NAV (a)				
TIFF multi-asset fund				1,880,308
Total fair value of assets			\$	4,245,391

(a) In accordance with the Foundation's adoption of ASU 2015-07 and ASC 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.

NOTE 6 - INVENTORY

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

	2019	2018
Pharmaceuticals	\$ 5,405,633	\$ 8,395,932
Medical equipment and supplies	1,031,114	872,379
Educational materials	909,185	6,365,946
Humanitarian supplies	22,558	45,298
	\$ 7,368,490	\$ 15,679,555

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 7 - PROPERTY AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Building and improvements	\$ 2,134,468	\$ 2,070,431
Equipment and furniture	<u>874,334</u>	<u>716,233</u>
	3,008,802	2,786,664
Less - Accumulated depreciation	<u>961,320</u>	<u>835,252</u>
	2,047,482	1,951,412
Land	<u>213,201</u>	<u>213,201</u>
Property and equipment, net	\$ <u>2,260,683</u>	\$ <u>2,164,613</u>

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31 consist of the following:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Worldwide health and educational programs	\$ 678,892	\$ 1,111,840
Perpetual in nature	<u>456,838</u>	<u>392,996</u>
	\$ <u>1,135,730</u>	\$ <u>1,504,836</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose were \$791,024 and \$1,736,707 for the years ended December 31, 2019 and 2018, respectively.

NOTE 9 - ENDOWMENT

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

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 9 - ENDOWMENT (Continued)

Interpretation of Relevant Law - The Board of Trustees of the Foundation has elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141) for the donor-restricted endowment funds. Act 141 is a total return policy that allows a nonprofit to choose to treat a percentage of the average market value of the endowment's permanently restricted investments as income each year. However, the long-term preservation of the real value of the assets must be taken into consideration when the Board elects the amount. On an annual basis, the Board must elect, in writing, a spending rate of between 2% and 7%. This percentage is applied to the average market value of the investments at the end of the prior year. Average market value is based on the previous 12 quarters. The Foundation classifies as net assets with donor restrictions 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 net assets with donor restrictions 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.

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

	<u>2019</u>	<u>2018</u>
Endowment net assets beginning of year	\$ 392,996	\$ 448,220
Investment return:		
Investment income	-	9,456
Net appreciation (depreciation)	<u>71,809</u>	<u>(54,916)</u>
	464,805	402,760
Appropriation of endowment assets for expenditure	<u>(7,967)</u>	<u>(9,764)</u>
Endowment net assets end of year	<u>\$ 456,838</u>	<u>\$ 392,996</u>

Return Objectives and Risk Parameters - The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a stream of funding for programs and initiatives supported by the endowment. The policies are also intended to protect the integrity of the assets and achieve the optimal return possible within the specified risk parameters. Endowment assets include those assets of donor-restricted funds that the 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.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 9 - ENDOWMENT (Continued)

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 2019 and 2018, the spendable return totaled 2% or \$7,967 and \$9,764, 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.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted Act 141 to permit spending from underwater endowments in accordance with prudent measures required under law. The Foundation has no underwater endowment funds at December 31, 2019 and 2018. The original corpus of the endowment funds is \$300,000.

NOTE 10 - GIFTS-IN-KIND

Recognition of donated materials and supplies or "gifts-in-kind" (GIK) revenue is limited to such contributions that the Foundation takes possession of, or gains 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. During 2019 and 2018, respectively, the Foundation had three contributors that donated medical materials that aggregated 73% and 95% of total contributed materials.

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 11 - 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 \$127,000 and \$107,000 for 2019 and 2018, respectively.

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

NOTE 12 - ALLOCATION OF EXPENSES

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

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 13 - LEASES

The Foundation has a lease agreement for warehouse space, which, as amended, is effective through June 30, 2020. The amendment restated the monthly rent payments to approximately \$6,500 for the final year.

The Foundation also has an operating lease agreement for the rental of warehouse space in Maryland on a month-to-month basis. The terms of the lease agreement call 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 \$165,000 and \$200,000 at December 31, 2019 and 2018, respectively.

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

<u>Year Ending</u> <u>December 31</u>	<u>Amount</u>
2020	\$ 49,000
2021	6,000
2022	<u>3,000</u>
	\$ <u><u>58,000</u></u>

NOTE 14 - SUBSEQUENT EVENTS

Subsequent events are defined as events or transactions that occur after the statement of financial position, but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through June 19, 2020, the date that the financial statements were issued, and determined that there have been no events that have occurred that would require adjustments to disclosures in the financial statements, except for the matters described in the following paragraphs.

The coronavirus pandemic could materially and adversely affect the Foundation and its operations. Government-imposed travel restrictions and quarantines may result in direct operational and administrative disruptions to the Foundation. Additionally, investment value and the Foundation's grantors, donors, partners and the community may be adversely affected by these disruptions, which in turn could negatively impact the Foundation's results. The Foundation is unable to accurately predict how the coronavirus pandemic will affect the results of its operations because the disease's severity and the duration of the outbreak are uncertain. However, while it is premature to accurately predict the ultimate impact of these developments, the Foundation expects its results for the year ending December 31, 2020 to be impacted.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 14 - SUBSEQUENT EVENTS (Continued)

On April 19, 2020, the Foundation entered into a term note with Key Bank, N.A. with a principal amount of approximately \$380,000 pursuant to the Paycheck Protection Program ("PPP Term Note") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The PPP Loan is evidenced by a promissory note. The PPP Term Note bears interest at a fixed annual rate of 1.00%, with the first six months of interest deferred. Beginning November 2020, the Foundation will make 18 equal monthly payments of principal and interest with the final payment due in April 2022. The PPP Term Note may be accelerated upon the occurrence of an event of default. The PPP Term Note is unsecured and guaranteed by the United States Small Business Administration. The Foundation may apply to Key Bank, N.A. for forgiveness of the PPP Term Note, with the amount which may be forgiven equal to the sum of payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Foundation during the eight-week period beginning upon receipt of PPP Term Note funds, which was April 20, 2020, calculated in accordance with the terms of the CARES Act.

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