

THE BROTHER'S BROTHER FOUNDATION
Pittsburgh, Pennsylvania

Financial Statements
For the year ended December 31, 2020
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, 2020, and the related statements of activities and changes in net assets, 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 (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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
May 11, 2021

THE BROTHER'S BROTHER FOUNDATION

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2020

ASSETS

Cash and cash equivalents	\$ 359,451
Restricted cash and cash equivalents	614,044
	<hr/> 973,495
Accounts receivable	62,167
Investments	2,668,733
Inventory	15,800,809
Prepaid expenses	65,046
Property and equipment, net	<hr/> 2,152,033
 Total Assets	 <hr/> <hr/> <u>\$ 21,722,283</u>

LIABILITIES

Accounts payable and accrued liabilities	\$ 171,003
Deferred grant revenue	<hr/> 379,850
 Total Liabilities	 550,853

NET ASSETS

Net Assets Without Donor Restrictions	20,114,715
Net Assets With Donor Restrictions:	
Purpose restricted	618,082
Perpetual in nature	<hr/> 438,633
	<hr/> 1,056,715
 Total Net Assets	 <hr/> 21,171,430
 Total Liabilities And Net Assets	 <hr/> <hr/> <u>\$ 21,722,283</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, 2020

	<u>Without Donor Restrictions</u>			<u>With Donor</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	-	\$ 77,586,621	\$ 77,586,621	-	\$ 77,586,621
Individuals	\$ 1,263,265	-	1,263,265	\$ 279,562	1,542,827
Foundations	131,775	-	131,775	314,961	446,736
Program service fees	363,235	-	363,235	-	363,235
Corporations	10,425	-	10,425	-	10,425
Civic and social clubs	7,850	-	7,850	5,900	13,750
Religious organizations	27,269	-	27,269	12,580	39,849
	<u>1,803,819</u>	<u>77,586,621</u>	<u>79,390,440</u>	<u>613,003</u>	<u>80,003,443</u>
Investment loss, net	(59,710)	-	(59,710)	(9,516)	(69,226)
Rental income	6,600	-	6,600	-	6,600
Net assets released from restrictions	682,502	-	682,502	(682,502)	-
	<u>2,433,211</u>	<u>77,586,621</u>	<u>80,019,832</u>	<u>(79,015)</u>	<u>79,940,817</u>
FUNCTIONAL EXPENSES					
Program services	1,797,916	69,069,462	70,867,378	-	70,867,378
Support services:					
Management and general	1,203,405	-	1,203,405	-	1,203,405
Fundraising	466,962	-	466,962	-	466,962
Total Support Services	<u>1,670,367</u>	<u>-</u>	<u>1,670,367</u>	<u>-</u>	<u>1,670,367</u>
Total Functional Expenses	<u>3,468,283</u>	<u>69,069,462</u>	<u>72,537,745</u>	<u>-</u>	<u>72,537,745</u>
Changes In Net Assets	(1,035,072)	8,517,159	7,482,087	(79,015)	7,403,072
NET ASSETS					
Beginning 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>
End of year	<u>\$ 4,385,412</u>	<u>\$ 15,729,303</u>	<u>\$ 20,114,715</u>	<u>\$ 1,056,715</u>	<u>\$ 21,171,430</u>

See notes to financial statements.

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THE BROTHER'S BROTHER FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

Program Services

	<u>Health</u>	<u>Infrastructure</u>	<u>Disaster</u>	<u>Education</u>	<u>Total</u>
Pharmaceuticals, medical equipment and supplies	\$ 63,886,309		\$ 33,511	-	\$ 63,919,820
Educational materials	-	-	-	\$5,149,642	5,149,642
Salaries and employee benefits	548,213	-	-	39,238	587,451
Purchased program supplies	365,263	-	9,907	204	375,374
Packaging and shipping	202,217	-	52,071	-	254,288
Grants	150,387	\$ 41,597	38,922	70	230,976
Consulting and outside services	5,250	-	-	-	5,250
Miscellaneous	97,060	-	-	1,532	98,592
Utilities and maintenance	80,179	-	-	8,909	89,088
Office Supplies	24,630	-	-	2,123	26,753
Rent	1,337	-	-	149	1,486
Accounting and insurance	19,419	-	-	1,973	21,392
Dues and subscriptions	110	-	-	5	115
Meals and travel	7,827	-	-	164	7,991
Total Expenses Before Depreciation	65,388,201	41,597	134,411	5,204,009	70,768,218
Depreciation	89,872	-	-	9,288	99,160
Total Functional Expenses	<u>\$ 65,478,073</u>	<u>\$ 41,597</u>	<u>\$ 134,411</u>	<u>\$5,213,297</u>	<u>\$ 70,867,378</u>

Support Services

Management and General	Fundraising	Total	Total
		-	
-	-	-	\$ 63,919,820
-	-	-	5,149,642
\$ 753,784	\$ 248,089	\$ 1,001,873	1,589,324
-	-	-	375,374
8	-	8	254,296
600	5	605	231,581
26,496	153,882	180,378	185,628
61,790	712	62,502	161,094
53,947	-	53,947	143,035
43,048	22,857	65,905	92,658
82,627	-	82,627	84,113
61,186	23	61,209	82,601
41,746	30,817	72,563	72,678
10,859	10,177	21,036	29,027
1,136,091	466,562	1,602,653	72,370,871
67,314	400	67,714	166,874
<u>\$ 1,203,405</u>	<u>\$ 466,962</u>	<u>\$ 1,670,367</u>	<u>\$ 72,537,745</u>

See notes to financial statements.

THE BROTHER'S BROTHER FOUNDATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

OPERATING ACTIVITIES

Changes in net assets	\$ 7,403,072
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation	166,874
Realized and unrealized loss on investment, net	82,025
Inventory, net	(8,432,319)
Changes in assets and liabilities:	
Accounts receivable	(3,083)
Prepaid expenses	3,523
Accounts payable and accrued liabilities	(74,436)
Deferred grant revenue	379,850
Net Cash Used In Operating Activities	<u>(474,494)</u>

INVESTING ACTIVITIES

Purchases of investments	(2,683,886)
Proceeds from sale of investments	3,050,937
Purchases of property and equipment	(58,224)
Net Cash Provided By Investing Activities	<u>308,827</u>

 Net Decrease In Cash And Cash Equivalents (165,667)

CASH AND CASH EQUIVALENTS

Beginning of year	<u>1,139,162</u>
End of year	<u>\$ 973,495</u>

See notes to financial statements.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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, 2020

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, 2020 will be immaterial. It is reasonably possible that the Foundation's estimate of the allowance for doubtful accounts will change. As of December 31, 2020, 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 depreciation on investments is reflected within net investment loss in the statements of activities. Investment loss 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 2020, 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 \$2,100,000. 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 2020.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Public Support and Revenue - The Foundation is funded by contributions and Gifts-in-kind (GIK) donations from individuals, foundations, corporations, civic and social clubs and religious organizations. All public support and revenue are considered to be available without donor restriction use unless specifically restricted by the donor. At its discretion, the Board of Directors (Board) may designate funds for specific purposes. There were no Board-designated funds as of December 31, 2020.

Program Service Fees - Program service fee revenue consists of billings for shipments of containers to third-world countries and recognized as revenue at time of the shipment. The Foundation records the costs of shipping and handling in program services. These costs were approximately \$254,000 for the year ended December 31, 2020.

Advertising Costs - Advertising costs are charged to expense during the period in which they are incurred. Total advertising costs were approximately \$155,000 for the year ended December 31, 2020.

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 year before December 31, 2017.

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 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.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements - In August 2018, the FASB issued Accounting Standards Update (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 adopted the provisions of ASU 2018-13 in its financial statements in the current year with no significant impact.

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 September 2020, the FASB issued ASU No. 2020-07 Not-for-Profit Entities (Topic 958) (ASU 2020-07), related to Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. This ASU is intended to improve financial reporting by providing new presentation and disclosure requirements on contributed nonfinancial assets. The Foundation will be required to create a separate line item on the statement of activities to include contributed nonfinancial items, separated from contributions of cash and other financial assets. Enhanced disclosures will include disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial asset and further information about each category of contributed nonfinancial asset recognized. ASU 2020-07 is effective for annual reporting periods beginning after June 15, 2021 and early application is permitted. The Foundation is currently assessing the impact that ASU 2020-07 will have on its financial statements and related disclosures.

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 May 11, 2021 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 matter described in the next paragraph.

The Foundation was named the beneficiary of an individual's bequest subsequent to the financial position date. As of February 2021, the Foundation has received approximately \$744,000.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

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 table below presents financial assets available for general expenditures within one year at December 31, 2020:

Total financial assets:		
Cash and cash equivalents	\$	359,451
Restricted cash and cash equivalents		614,044
Accounts receivable		62,167
Investments not subject to donor restriction		2,230,100
Endowment - Spending rate appropriation		8,610
		<u>3,274,372</u>
Less donor-imposed restrictions:		
Funds subject to purpose restrictions		<u>618,082</u>
Financial assets available to meet general expenditures	\$	<u><u>2,656,290</u></u>

NOTE 4 - INVESTMENTS

Investments are presented in the financial statements at fair value. Fair value and related cost basis at December 31, 2020 are as follows:

	<u>Fair Value</u>	<u>Cost</u>
Money Market Fund	\$ 2,666,287	\$ 2,666,287
Stock	<u>2,446</u>	<u>2,436</u>
Total investments	\$ <u><u>2,668,733</u></u>	\$ <u><u>2,666,610</u></u>

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

NOTE 4 - INVESTMENTS (Continued)

Investment loss for the year ended December 31, 2020 is composed of the following:

Interest	\$	1,777
Dividends		6,687
General and administrative expense		(5,021)
Endowment transfer		8,689
Capital gains and other additions		667
Realized and unrealized loss, net		<u>(82,025)</u>
	\$	<u><u>(69,226)</u></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, 2020

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, 2020.

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, 2020:

	<u>Fair Value Measurement</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market fund	\$ 2,666,287	-	-	\$ 2,666,287
Equity mutual funds:				
Large cap funds	<u>2,446</u>	<u>-</u>	<u>-</u>	<u>2,446</u>
Assets in the fair value hierarchy	\$ <u>2,668,733</u>	<u>-</u>	<u>-</u>	\$ <u>2,668,733</u>

NOTE 6 - INVENTORY

The Foundation's inventory at December 31, 2020 is summarized as follows:

Pharmaceuticals	\$ 14,422,405
Medical equipment and supplies	393,646
Educational materials	910,230
Humanitarian supplies	<u>74,528</u>
	\$ <u>15,800,809</u>

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 7 - PROPERTY AND EQUIPMENT

The Foundation's property and equipment at December 31, 2020 are summarized as follows:

Building and improvements	\$ 2,158,568
Equipment and furniture	<u>908,458</u>
	3,067,026
Less - Accumulated depreciation	<u>1,128,194</u>
	1,938,832
Land	<u>213,201</u>
Property and equipment, net	\$ <u>2,152,033</u>

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Purpose restricted net assets with donor restriction at December 31, 2020 consisted of approximately \$618,000 restricted for worldwide health and educational programs. Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose were \$682,502 for the year ended December 31, 2020.

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, 2020

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 year ended December 31, 2020 is represented as follows:

Endowment net assets beginning of year	\$ 456,838
Investment return:	
Net depreciation	<u>(9,516)</u>
	447,322
Appropriation of endowment assets for expenditure	<u>(8,689)</u>
Endowment net assets end of year	\$ <u>438,633</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, 2020

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 2020, the spendable return totaled 2% or \$8,689. 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, 2020. The original corpus of the endowment funds is \$300,000.

NOTE 10 - GIFTS-IN-KIND

Recognition of donated materials and supplies or 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 2020, the Foundation had two contributors that donated medical materials that aggregated 77% 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 simplified employee 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 \$78,000 for 2020.

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 the percentage of total revenues and expenses of each program.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

NOTE 13 - LEASES

The Foundation has a lease agreement for office space, effective through September 24, 2021. The terms of the lease agreement call for monthly rent of \$800.

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 \$84,000 at December 31, 2020.

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>
2021	\$ 13,000
2022	<u>3,000</u>
	<u>\$ 16,000</u>

NOTE 14 - RISKS AND UNCERTAINTIES

The coronavirus pandemic could continue to materially and adversely affect the Foundation and its operations. Further government-imposed 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 the Foundation cannot predict the ultimate impact of these developments, the Foundation expects its results for the year ending December 31, 2021 to be impacted.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 14 - GOVERNMENTAL GRANT

The Foundation is a recipient of a Paycheck Protection Program (PPP) loan with Key Bank of approximately \$380,000 granted by the Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), that is reflected as deferred grant revenue as of December 31, 2020. The PPP loan is evidenced by promissory note bearing interest at a fixed annual rate of 1.00%, with the first six months of interest deferred. The PPP loan is unsecured and guaranteed by the United States SBA. Under the program terms, PPP loans are forgiven and recognized as grant revenue if the loan proceeds are used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following receipt of the loan. The Foundation has determined that it will meet the criteria for forgiveness; therefore, the amount included in deferred grant revenue will be recognized as grant revenue in fiscal year 2021.