

THE BROTHER'S BROTHER FOUNDATION  
Pittsburgh, Pennsylvania

Financial Statements  
For the years ended December 31, 2021 and 2020  
and Independent Auditor's Report Thereon



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
The Brother's Brother Foundation  
Pittsburgh, Pennsylvania

**Opinion**

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, 2021 and 2020, 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.

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, 2021 and 2020, 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.

**Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Schneider Downs & Co., Inc.*

Pittsburgh, Pennsylvania  
May 26, 2022

THE BROTHER'S BROTHER FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	December 31	
	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 2,835,248	\$ 1,841,226
Restricted cash and cash equivalents	1,545,367	1,052,189
	<u>4,380,615</u>	<u>2,893,415</u>
Accounts receivable	37,282	62,167
Investments	243,817	748,813
Inventory	9,879,642	15,800,809
Prepaid expenses	91,479	65,046
Property and equipment, net	<u>2,244,780</u>	<u>2,152,033</u>
 Total Assets	 <u><u>\$ 16,877,615</u></u>	 <u><u>\$ 21,722,283</u></u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 198,743	\$ 171,003
Deferred grant revenue	<u>-</u>	<u>379,850</u>
 Total Liabilities	 198,743	 550,853
NET ASSETS		
Net Assets Without Donor Restrictions	15,133,016	20,114,715
Net Assets With Donor Restrictions:		
Purpose restricted	1,115,676	618,082
Perpetual in nature	430,180	438,633
	<u>1,545,856</u>	<u>1,056,715</u>
 Total Net Assets	 <u>16,678,872</u>	 <u>21,171,430</u>
 Total Liabilities And Net Assets	 <u><u>\$ 16,877,615</u></u>	 <u><u>\$ 21,722,283</u></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, 2021

	<u>Without Donor Restrictions</u>			<u>With</u>	<u>Total</u>
	<u>General</u>	<u>In-Kind</u>	<u>Total</u>	<u>Donor</u>	
	<u>Operating</u>			<u>Restrictions</u>	
<b>REVENUE AND PUBLIC SUPPORT</b>					
Donated materials and supplies	-	\$112,923,073	\$112,923,073	-	\$112,923,073
Individuals	\$2,230,426	-	2,230,426	\$ 547,906	2,778,332
Foundations	193,700	-	193,700	346,497	540,197
Program service fees	448,237	-	448,237	-	448,237
Corporations	26,485	-	26,485	134,917	161,402
Civic and social clubs	2,915	-	2,915	8,765	11,680
Religious organizations	18,865	-	18,865	31,402	50,267
Paycheck Protection Program loan	379,850	-	379,850	-	379,850
	<u>3,300,478</u>	<u>112,923,073</u>	<u>116,223,551</u>	<u>1,069,487</u>	<u>117,293,038</u>
Investment and other income, net	7,939	-	7,939	157	8,096
Rental income	2,950	-	2,950	-	2,950
Special event income	-	-	-	86,375	86,375
Net assets released from restrictions	666,878	-	666,878	(666,878)	-
	<u>3,978,245</u>	<u>112,923,073</u>	<u>116,901,318</u>	<u>489,141</u>	<u>117,390,459</u>
<b>FUNCTIONAL EXPENSES</b>					
Program services	1,373,337	118,837,276	120,210,613	-	120,210,613
Support services:					
Management and general	1,086,368	-	1,086,368	-	1,086,368
Fundraising	586,036	-	586,036	-	586,036
Total Support Services	<u>1,672,404</u>	<u>-</u>	<u>1,672,404</u>	<u>-</u>	<u>1,672,404</u>
Total Functional Expenses	<u>3,045,741</u>	<u>118,837,276</u>	<u>121,883,017</u>	<u>-</u>	<u>121,883,017</u>
Changes In Net Assets	932,504	(5,914,203)	(4,981,699)	489,141	(4,492,558)
<b>NET ASSETS</b>					
Beginning 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>
End of year	<u>\$5,317,916</u>	<u>\$ 9,815,100</u>	<u>\$ 15,133,016</u>	<u>\$1,545,856</u>	<u>\$ 16,678,872</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 Restrictions</u>	
	<u>General Operating</u>	<u>In-Kind</u>	<u>Total</u>	<u>Restrictions</u>	<u>Total</u>
<b>REVENUE AND PUBLIC SUPPORT</b>					
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 and other income, 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>
<b>FUNCTIONAL EXPENSES</b>					
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
<b>NET ASSETS</b>					
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.

THE BROTHER'S BROTHER FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Program Services</u>				
	<u>Health</u>	<u>Infrastructure</u>	<u>Disaster</u>	<u>Education</u>	<u>Total</u>
Pharmaceuticals, medical equipment and supplies	\$112,769,648	-	\$5,097,305	-	\$117,866,953
Salaries and employee benefits	351,580	\$ 3,259	10,307	\$ 18,647	383,793
Educational materials	-	-	-	970,323	970,323
Grants	25,566	147,620	225,554	9,825	408,565
Miscellaneous	89,139	-	-	976	90,115
Packaging and shipping	172,783	-	22,394	5,586	200,763
Consulting and outside services	1,165	-	-	-	1,165
Dues and subscriptions	520	-	100	2,005	2,625
Utilities and maintenance	74,777	-	-	8,309	83,086
Accounting and insurance	-	-	-	-	-
Office supplies	18,679	-	6	1,281	19,966
Purchased program supplies	80,183	-	-	2,220	82,403
Meals and travel	879	-	-	61	940
Rent	-	-	-	-	-
Total Expenses Before Depreciation	113,584,919	150,879	5,355,666	1,019,233	120,110,697
Depreciation	90,615	-	-	9,301	99,916
Total Functional Expenses	<u>\$113,675,534</u>	<u>\$ 150,879</u>	<u>\$5,355,666</u>	<u>\$1,028,534</u>	<u>\$120,210,613</u>

Support Services

Management and General	Fundraising	Total	Total
-	-	-	\$117,866,953
\$ 650,787	\$ 265,242	\$ 916,029	1,299,822
-	-	-	970,323
600	-	600	409,165
64,705	53,736	118,441	208,556
185	-	185	200,948
28,624	167,681	196,305	197,470
80,829	57,622	138,451	141,076
46,700	269	46,969	130,055
94,018	-	94,018	94,018
30,329	32,294	62,623	82,589
-	-	-	82,403
6,724	8,792	15,516	16,456
13,445	-	13,445	13,445
1,016,946	585,636	1,602,582	121,713,279
69,422	400	69,822	169,738
<u>\$1,086,368</u>	<u>\$ 586,036</u>	<u>\$1,672,404</u>	<u>\$121,883,017</u>

See notes to financial statements.

THE BROTHER'S BROTHER FOUNDATION

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

	<u>Program Services</u>				
	<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
Salaries and employee benefits	548,213	-	-	39,238	587,451
Educational materials	-	-	-	\$5,149,642	5,149,642
Grants	150,387	\$ 41,597	38,922	70	230,976
Miscellaneous	97,060	-	-	1,532	98,592
Packaging and shipping	202,217	-	52,071	-	254,288
Consulting and outside services	5,250	-	-	-	5,250
Dues and subscriptions	110	-	-	5	115
Utilities and maintenance	80,179	-	-	8,909	89,088
Accounting and insurance	19,419	-	-	1,973	21,392
Office Supplies	24,630	-	-	2,123	26,753
Purchased program supplies	365,263	-	9,907	204	375,374
Meals and travel	7,827	-	-	164	7,991
Rent	1,337	-	-	149	1,486
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
\$ 753,784	\$ 248,089	\$1,001,873	1,589,324
-	-	-	5,149,642
600	5	605	231,581
61,790	712	62,502	161,094
8	-	8	254,296
26,496	153,882	180,378	185,628
41,746	30,817	72,563	72,678
53,947	-	53,947	143,035
61,186	23	61,209	82,601
43,048	22,857	65,905	92,658
-	-	-	375,374
10,859	10,177	21,036	29,027
82,627	-	82,627	84,113
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

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<b>OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (4,492,558)	\$ 7,403,072
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	169,738	166,874
Realized and unrealized (gain) loss on investment, net	5,590	82,025
Inventory, net	5,921,167	(8,432,319)
Changes in assets and liabilities:		
Accounts receivable	24,885	(3,083)
Prepaid expenses	(26,433)	3,523
Accounts payable and accrued liabilities	27,740	(74,436)
Deferred grant revenue	(379,850)	379,850
Net Cash Provided By (Used In) Operating Activities	<u>1,250,279</u>	<u>(474,494)</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of investments	(63,733)	(2,683,886)
Proceeds from sale of investments	563,139	4,970,857
Purchases of property and equipment	(262,485)	(58,224)
Net Cash Provided By Investing Activities	<u>236,921</u>	<u>2,228,747</u>
Net Increase (Decrease) In Cash And Cash Equivalents	1,487,200	1,754,253
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>2,893,415</u>	<u>1,139,162</u>
End of year	<u>\$ 4,380,615</u>	<u>\$ 2,893,415</u>

See notes to financial statements.

## THE BROTHER'S BROTHER FOUNDATION

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

#### NOTE 1 - ORGANIZATION

The Brother's Brother Foundation (Foundation) helps bridge the gap between aid and sustainability by supporting localized programs and providing essential resources in the areas of Healthcare, Infrastructure, Disaster Response, and Education (H.I.D.E). All programs are designed to fulfill the Foundation's mission by providing aid and developing sustainable projects. The Foundation has operations in Pittsburgh, Pennsylvania and Maryland.

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, 2021 AND 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, 2021 and 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, 2021 and 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 appreciation and depreciation on investments is reflected within net investment gain or loss in the statements of activities. Investment gain or 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 valuation methodology for donated medical supplies and equipment utilized published pricing guidelines from the Medline third-party website, a global manufacturer and distributor of essential medical supplies, discounted to reflect the value of donated materials compared to new materials. The total of all net prices provided is divided by the total number of units donated to calculate an average cost per unit, which is determined as 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 2021 and 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 \$600,000 and \$2,100,000, 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.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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 \$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 2021 or 2020.

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, 2021 and 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 \$201,000 and \$254,000 for the years ended December 31, 2021 and 2020, respectively.

Advertising Costs - Advertising costs are charged to expense during the period in which they are incurred. Total advertising costs were approximately \$168,000 and \$155,000 for the years ended December 31, 2021 and 2020, 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 year before December 31, 2018.

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, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements - In February 2016, the FASB issued Accounting Standards Update (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 26, 2022, 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.

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 BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE 3 - LIQUIDITY AND AVAILABILITY (Continued)

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:

	2021	2020
Total financial assets:		
Cash and cash equivalents	\$ 2,835,248	\$ 1,841,226
Restricted cash and cash equivalents	1,545,367	1,052,189
Accounts receivable	37,282	62,167
Investments	243,817	748,813
Endowment - Spending rate appropriation	8,843	8,610
	4,670,557	3,713,005
Less donor-imposed restrictions:		
Funds subject to purpose restrictions	1,115,676	618,082
Funds restricted in perpetuity	430,180	438,633
	1,545,856	1,056,715
Financial assets available to meet general expenditures	\$ 3,124,701	\$ 2,656,290

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:

	2021		2020	
	Fair Value	Cost	Fair Value	Cost
Money Market Fund	\$ 241,345	\$ 241,345	\$ 746,367	\$ 746,367
Stock	2,472	2,520	2,446	2,436
Total investments	\$ 243,817	\$ 243,865	\$ 748,813	\$ 748,803

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.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

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 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, 2021 and 2020.

The valuations of the Foundation's investment of money market and stock are classified as Level 1 investment by the fair value hierarchy at December 31, 2021 and 2020.

THE BROTHER'S BROTHER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE 6 - INVENTORY

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

	<u>2021</u>	<u>2020</u>
Pharmaceuticals	\$ 6,023,045	\$ 14,422,405
Medical equipment and supplies	3,457,538	393,646
Educational materials	11,793	910,230
Humanitarian supplies	<u>387,266</u>	<u>74,528</u>
	<u>\$ 9,879,642</u>	<u>\$ 15,800,809</u>

NOTE 7 - PROPERTY AND EQUIPMENT

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

	<u>2021</u>	<u>2020</u>
Building and improvements	\$ 2,264,900	\$ 2,158,568
Equipment and furniture	1,064,612	908,458
	<u>3,329,512</u>	<u>3,067,026</u>
Less - Accumulated depreciation	1,297,933	1,128,194
	<u>2,031,579</u>	<u>1,938,832</u>
Land	213,201	213,201
	<u>213,201</u>	<u>213,201</u>
Property and equipment, net	<u>\$ 2,244,780</u>	<u>\$ 2,152,033</u>

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Purpose restricted net assets with donor restriction at December 31, 2021 and 2020 consisted of approximately \$1,116,000 and \$618,000, respectively, restricted for worldwide health and educational programs. Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose were \$666,878 and \$682,502 for the years ended December 31, 2021 and 2020, 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, 2021 AND 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 years ended December 31 is represented as follows:

	<u>2021</u>	<u>2020</u>
Endowment net assets beginning of year	\$ 438,633	\$ 456,838
Investment return:		
Net appreciation (depreciation)	<u>157</u>	<u>(9,516)</u>
	438,790	447,322
Appropriation of endowment assets for expenditure	<u>(8,610)</u>	<u>(8,689)</u>
Endowment net assets end of year	<u>\$ 430,180</u>	<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, 2021 AND 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 2021 and 2020, the spendable return totaled 2% or \$8,610 and \$8,689, 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, 2021 and 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 2021 and 2020, the Foundation had two contributors that donated medical materials that aggregated 80% and 77%, respectively, 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 \$65,000 and \$78,000 for 2021 and 2020, 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 the percentage of total revenues and expenses of each program.

THE BROTHER'S BROTHER FOUNDATION

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NOTE 13 - LEASES

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 \$13,000 and \$84,000 at December 31, 2021 and 2020, 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>
2022	\$ 14,000
2023	14,000
2024	7,000
2025	2,000
2026	<u>2,000</u>
	<u>\$ 39,000</u>

NOTE 14 - GOVERNMENTAL GRANT

The Foundation was 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), which was reflected as deferred grant revenue as of December 31, 2020. The PPP loan was 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 was 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 PPP loan was fully forgiven in 2021 and was recognized as revenue on the statements of activities and changes in net assets.