

BRANDYWINE HEALTH FOUNDATION

FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015



Certified Public Accountants and Business Consultants

BRANDYWINE HEALTH FOUNDATION

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Independent Auditors' Report

To the Board of Directors
Brandywine Health Foundation
Coatesville, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Brandywine Health Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities 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; 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 entity'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 entity'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.

To the Board of Directors
Brandywine Health Foundation
Coatesville, Pennsylvania

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Brandywine Health Foundation as of June 30, 2016 and 2015, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated October 24, 2016 on our consideration of the Brandywine Health Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Brandywine Health Foundation's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Mailli LLP".

Oaks, Pennsylvania
October 24, 2016

BRANDYWINE HEALTH FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 478,862	\$ 108,296
Investments	23,704,259	26,306,818
Contributions and grants receivable	195,611	439,117
Loans receivable		
Brandywine Health & Housing, LP	2,044,366	1,979,950
Property and equipment, less accumulated depreciation of \$34,308 (2016) and \$19,914 (2015)	1,202,390	543,979
Land held for sale	2,650,000	2,650,000
Loan fees, less accumulated amortization of \$369 (2016)	21,765	-
Other assets	<u>34,906</u>	<u>33,736</u>
TOTAL ASSETS	\$ <u>30,332,159</u>	\$ <u>32,061,896</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Line of credit	\$ -	\$ 100,000
Grants payable	515,984	724,169
Accounts payable and accrued expenses	122,325	112,750
Mortgage payable	<u>681,957</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,320,266</u>	<u>936,919</u>
NET ASSETS		
Unrestricted	27,560,122	29,537,029
Temporarily restricted	1,316,086	1,452,263
Permanently restricted	<u>135,685</u>	<u>135,685</u>
TOTAL NET ASSETS	<u>29,011,893</u>	<u>31,124,977</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>30,332,159</u>	\$ <u>32,061,896</u>

See accompanying notes.

BRANDYWINE HEALTH FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

	2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
SUPPORT AND REVENUE				
Contributions and grants	\$ 278,385	\$ 195,298	\$ -	\$ 473,683
Special events, net	257,819	-	-	257,819
Investment income (loss)	(904,683)	(18,181)	-	(922,864)
In-kind contributions	-	-	-	-
Net assets released from restrictions	<u>313,294</u>	<u>(313,294)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>(55,185)</u>	<u>(136,177)</u>	<u>-</u>	<u>(191,362)</u>
EXPENSES				
Program services	1,464,566	-	-	1,464,566
General and administrative	264,558	-	-	264,558
Fund-raising	192,598	-	-	192,598
TOTAL EXPENSES	<u>1,921,722</u>	<u>-</u>	<u>-</u>	<u>1,921,722</u>
CHANGE IN NET ASSETS	(1,976,907)	(136,177)	-	(2,113,084)
NET ASSETS AT BEGINNING OF YEAR	<u>29,537,029</u>	<u>1,452,263</u>	<u>135,685</u>	<u>31,124,977</u>
NET ASSETS AT END OF YEAR	<u>\$ 27,560,122</u>	<u>\$ 1,316,086</u>	<u>\$ 135,685</u>	<u>\$ 29,011,893</u>

See accompanying notes.

2015

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
\$ 515,031	\$ 314,670	\$ -	\$ 829,701
250,968	-	-	250,968
435,198	6,529	-	441,727
1,325,524	-	-	1,325,524
<u>299,845</u>	<u>(299,845)</u>	<u>-</u>	<u>-</u>
<u>2,826,566</u>	<u>21,354</u>	<u>-</u>	<u>2,847,920</u>
1,727,537	-	-	1,727,537
251,483	-	-	251,483
238,580	-	-	238,580
<u>2,217,600</u>	<u>-</u>	<u>-</u>	<u>2,217,600</u>
608,966	21,354	-	630,320
<u>28,928,063</u>	<u>1,430,909</u>	<u>135,685</u>	<u>30,494,657</u>
<u>\$ 29,537,029</u>	<u>\$ 1,452,263</u>	<u>\$ 135,685</u>	<u>\$ 31,124,977</u>

BRANDYWINE HEALTH FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,113,084)	\$ 630,320
Adjustments to reconcile change in net assets to net cash used by operating activities		
Unrealized and realized (gain) loss on investments	1,445,117	63,847
Interest and dividends reinvested	(713,152)	(658,726)
Loss on disposal of assets	-	-
In-kind property contributions	-	(1,325,524)
Depreciation and amortization	14,763	3,266
(Increase) decrease in		
Contributions and grants receivable	243,506	184,992
Other assets	(1,170)	(13,231)
Increase (decrease) in		
Grants payable	(208,185)	29,169
Accounts payable and accrued expenses	9,575	(7,311)
NET CASH USED BY OPERATING ACTIVITIES	<u>(1,322,630)</u>	<u>(1,093,198)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments, net	1,870,594	1,123,425
Purchases of property and equipment	(672,805)	(188,631)
Loan to Brandywine Health & Housing, LP	(64,416)	(61,717)
Loan to BHS Transitional Corporation	-	(90,694)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,133,373</u>	<u>782,383</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (payments) on line of credit	(100,000)	100,000
Proceeds from long-term borrowings	665,857	-
Payments on long-term borrowings	(6,034)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>559,823</u>	<u>100,000</u>
NET INCREASE (DECREASE) IN CASH	370,566	(210,815)
CASH AT BEGINNING OF YEAR	<u>108,296</u>	<u>319,111</u>
CASH AT END OF YEAR	<u>\$ 478,862</u>	<u>\$ 108,296</u>
SUPPLEMENTAL DISCLOSURES		
Noncash investing and financing activities		
Loan fees from long-term borrowings	\$ 22,134	\$ -
Noncash exchange of note receivable for receipt of assets (see Notes B and F for details)	\$ -	\$ 1,674,476

See accompanying notes.

BRANDYWINE HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Brandywine Health Foundation (the "Foundation") is a nonprofit corporation classified by the Internal Revenue Service as tax exempt under Section 501(c)(3) and as a nonprivate foundation under Section 501(a)(1) of the Internal Revenue Code of 1986. The Foundation's mission is to improve the health and well-being of people who live and work in the Greater Coatesville Area by fostering community partnerships, by providing capacity building support and by making grants to promote health equity, healthy youth and a healthy community. The Foundation commenced activities in 2001.

Financial Statement Presentation

Accounting standards require the Foundation to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets are available for use by the Foundation at the discretion of the Board of Directors. If the Board specifies a purpose where the original donor has stated none, such funds are classified as Board designated unrestricted net assets.

Temporarily restricted net assets are available for use by the Foundation for the purpose specified by the donor at the time of donation.

Permanently restricted net assets are those that the donor stipulates must be maintained by the Foundation in perpetuity.

Contributions

In accordance with accounting standards, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Investments

Accounting standards require that investments in marketable securities with readily determinable fair value and all investments in debt securities be reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

All interest and dividend income, as well as gains and losses on investments of temporarily restricted funds, are included in unrestricted funds. All interest and dividend income, as well as gains and losses on investments of permanently restricted funds, are included in temporarily restricted funds for the purposes outlined in the applicable permanently restricted funds.

BRANDYWINE HEALTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all cash and investments with an original maturity of three months or less to be cash and cash equivalents.

Fair Value of Financial Instruments

The fair value of financial instruments has been determined through quoted market values.

Property and Equipment

Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation.

Buildings, furniture and equipment are depreciated using the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Buildings	39
Building improvements	5-39
Furniture and fixtures	7
Office equipment	5

Accounts Receivable

At June 30, 2016 and 2015, management considers accounts receivable to be fully collectible. The Foundation uses the direct write-off method for bad debt expense, which approximates generally accepted accounting principles.

Date of Management's Review

Management has evaluated subsequent events through October 24, 2016, the date which the financial statements were available to be issued.

BRANDYWINE HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE B - DONATED SERVICES AND CONTRIBUTED PROPERTY

Brandywine Hospital donated services to the Foundation for the 2016 and 2015 Strawberry Festival in the amount of \$17,181 and \$12,844, respectively. These services included general maintenance and food preparation. These amounts have been included as revenues and costs of the Strawberry Festival in the accompanying financial statements. In 2016, there was \$3,000 in other donated services.

In addition, the accompanying financial statements do not include the value of services contributed by a substantial number of volunteers who have donated significant amounts of their time in support of the Foundation's activities. These donated services did not meet the criteria for recognition as contributed services for these two years.

During the fiscal year ended June 30, 2015, BHS Transitional Corporation repaid their outstanding loan to the Foundation by donating land with an appraised fair market value of \$2,650,000. The total loan repayment at the date of contribution to the Foundation was \$1,674,476 (which includes additional borrowing and accrued interest from the Foundation to BHS Transitional Corporation) and the in-kind contribution revenue recognized by the Foundation during the fiscal year ending June 30, 2015 was \$975,524.

During the fiscal year ended June 30, 2015, the BHS Transitional Corporation made an in-kind contribution of a consignment shop to the Foundation at an appraised fair market value of \$350,000.

NOTE C - PENSION PLAN

The Foundation sponsors a SIMPLE IRA deferred compensation plan for all eligible employees. Eligible employees may contribute specified amounts of their annual compensation to the plan. The Foundation will make a discretionary matching contribution up to 3% of the amount of the employee's annual salary, or \$12,000, whichever is less. The Foundation made matching contributions of \$11,081 and \$10,252 during the years ended June 30, 2016 and 2015, respectively.

NOTE D - CONTRIBUTIONS AND GRANTS RECEIVABLE

At June 30, 2016, contributions and grants receivable included \$195,611 of contributions due in full as follows:

CONTRIBUTIONS DUE IN FULL	
Due within one year	\$ 163,286
Due from one to five years	<u>32,325</u>
	<u>\$ 195,611</u>

BRANDYWINE HEALTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE D - CONTRIBUTIONS AND GRANTS RECEIVABLE

At June 30, 2016, contributions and grants receivable included \$195,611 of contributions due in full as follows:

CONTRIBUTIONS DUE IN FULL	
Due within one year	\$ 163,286
Due from one to five years	<u>32,325</u>
	<u>\$ 195,611</u>

NOTE E - CASH

Cash represents a financial instrument that potentially subjects the Foundation to concentrations of credit risk. The Foundation maintains its cash accounts at various high-quality financial institutions. At June 30, 2016, there were no balances exposed to potential credit risk.

NOTE F - BHS TRANSITIONAL CORPORATION

Effective May 31, 2001, Brandywine Health Services, Inc. sold the majority of its assets and liabilities to an unrelated party and changed its name to BHS Transitional Corporation (the "Corporation"). The assets retained by the Corporation were used to repay certain obligations not assumed by the buyer, with the balance donated to the Foundation. During 2007, the Foundation made a loan of \$1,300,000 to the Corporation. In addition, the Foundation lent funds periodically to cover operating expenses of the Corporation. The loan was secured by real estate and was repaid with interest at rates related to LIBOR from the proceeds upon the sale of the real estate. As of June 30, 2015, the balance of the loan was fully repaid with the contribution of the land received by the Foundation (Note B). With the donation of real estate and resolution of the loan to the Foundation, the BHS Transitional Corporation filed for dissolution with the Internal Revenue Service and ended activities on June 30, 2015.

BRANDYWINE HEALTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE G - INVESTMENTS

Investments at fair value consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
MONEY MARKETS	\$ 905,512	\$ 596,595
ALTERNATIVE FUNDS		
Real estate investment trust funds	<u>109,259</u>	<u>96,260</u>
EQUITY FUNDS		
iShares MSCI EM Mrkt S/C ETF	226,812	265,760
MFS Value Fund	2,408,330	-
SPDR MSCI Acwi Ex-U.S.	501,664	271,918
Vanguard Growth ETF	428,800	428,200
Vanguard Total Stock Market Index Fund	1,607,967	3,791,650
Vanguard Value ETF	<u>911,942</u>	<u>406,380</u>
TOTAL EQUITY FUNDS	<u>6,085,515</u>	<u>5,163,908</u>
INTERNATIONAL MUTUAL FUNDS		
Acadian Emg Mkts Port Instl	-	483,629
Harding Loevner Inst Emg M-1	427,798	-
Harding Loevner Inter S/C-lv	262,652	269,894
Invesco Intl Growth Fd-R5	1,019,089	1,271,820
Matthews Emerging Asia-Ins	225,402	-
SPDR S&P Emerging Asia Pacific ETF	-	1,283,014
Vanguard FTSE Europe ETF	766,391	781,361
Wisdomtree Europe Hedged Equity Fund	94,491	-
Wisdomtree Japan Hedged Equity Fund	<u>622,303</u>	<u>466,180</u>
TOTAL INTERNATIONAL MUTUAL FUNDS	<u>3,418,126</u>	<u>4,555,898</u>
HEDGE FUNDS		
Mill Creek Intl Fund LTD Absolute Return Class	1,455,414	1,219,936
Mill Creek Intl Fund LTD Strategic Return Class	<u>726,083</u>	<u>766,936</u>
TOTAL HEDGE FUNDS	<u>2,181,497</u>	<u>1,986,872</u>
US TREASURY NOTES	<u>435,722</u>	-
CORPORATE BONDS	<u>5,952,500</u>	<u>6,002,621</u>
COMMON STOCKS		
Consumer discretionary	880,453	1,077,820
Consumer staples	511,778	394,268
Energy	62,696	296,415
Financials	446,796	1,630,955
Health care	715,241	1,094,650
Industrials	879,248	1,421,554
Technology	774,674	1,638,730
Telecommunication services	212,446	-
Utilities	31,687	-
Basic material	101,109	75,807
Other	-	274,465
TOTAL COMMON STOCKS	<u>4,616,128</u>	<u>7,904,664</u>
TOTAL INVESTMENTS	<u>\$ 23,704,259</u>	<u>\$ 26,306,818</u>

BRANDYWINE HEALTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE G - INVESTMENTS (Continued)

Investment income (loss) consisted of the following for the year ended June 30:

	<u>2016</u>	<u>2015</u>
Interest	\$ 64,415	\$ 71,980
Dividends	648,737	586,746
Realized gain (loss)	(170,795)	3,092,607
Unrealized loss	(1,274,322)	(3,156,454)
Investment fees	<u>(190,899)</u>	<u>(153,152)</u>
	<u>\$ (922,864)</u>	<u>\$ 441,727</u>

NOTE H - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 275,000	\$ 275,000
Construction in progress	-	188,631
Building and building improvements	936,436	75,000
Office furniture and equipment	<u>25,262</u>	<u>25,262</u>
	1,236,698	563,893
Accumulated depreciation	<u>(34,308)</u>	<u>(19,914)</u>
	<u>\$ 1,202,390</u>	<u>\$ 543,979</u>

Depreciation expense for the years ended June 30, 2016 and 2015, was \$14,763 and \$3,266, respectively.

NOTE I - RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Campaign for Coatesville Kids	\$ 156,931	\$ 263,883
Emergency medical programs	452,634	452,634
Harry Lewis Jr. Scholarship Fund	397,135	423,019
Youth Mental Health First Aid	141,589	190,381
Nursing scholarships	94,622	103,458
Greening Coatesville Initiative	60,550	-
Other	<u>12,625</u>	<u>18,888</u>
	<u>\$ 1,316,086</u>	<u>\$ 1,452,263</u>

BRANDYWINE HEALTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE I - RESTRICTIONS ON NET ASSETS (Continued)

The Foundation released funds from donor restrictions by making expenditures for the following:

	<u>2016</u>	<u>2015</u>
Campaign for Coatesville Kids	\$ 113,830	\$ 200
Coatesville Youth Initiative	-	50,400
Emergency medical programs	-	64,015
Harry Lewis Jr. Scholarship Fund	16,137	4,101
Youth Mental Health First Aid	102,342	107,119
Nursing scholarships	37,362	15,550
Other	<u>43,623</u>	<u>58,460</u>
	<u>\$ 313,294</u>	<u>\$ 299,845</u>

Permanently Restricted Net Assets

Permanently restricted net assets of \$135,685 consist of funds to be held indefinitely. The income from such funds can be used to provide nursing scholarships.

NOTE J - BRANDYWINE HEALTH & HOUSING, LP

In August 2005, the Foundation formed a General Partner entity--the Brandywine Health & Housing Center, Inc.--the Board of Directors of which is made up of one current and two former Foundation board members, the Foundation's President/CEO and an additional member of the Coatesville area community. The Foundation and the General Partner entered into a limited partnership, Brandywine Health & Housing, LP for the purpose of constructing a health center and housing facility in the 700 block of East Lincoln Highway in Coatesville, Pennsylvania. The Foundation was the sponsor and co-developer of the entire project and guarantees some of the obligations of the General Partner. The Foundation was replaced as the limited partner in June 2007 by PNC Multi-Family Capital. The building's construction was completed on March 24, 2008. All commercial tenants moved in by April 30, 2008. All residential tenants signed leases which began by September 10, 2008.

Also, in May 2006, the Foundation formed a new non-profit, the Coatesville Health Development Corporation (CHDC), to borrow \$3 million from the United States Department of Agriculture and \$1.5 million from Community Lenders Community Development to finance a portion of the health and housing facility described above. The Foundation guaranteed the loans. The Board of Directors of the CHDC is chaired by one current Foundation board member and four additional members of the Coatesville area community. The amount outstanding on these loans was \$4,032,828 and \$4,102,260 at June 30, 2016 and 2015, respectively.

BRANDYWINE HEALTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE J - BRANDYWINE HEALTH & HOUSING, LP (Continued)

In addition, in 2007 the Foundation also lent \$800,000 and \$757,460 to Brandywine Health & Housing, LP. The loans have a 30-year term with interest at 1.00% and 4.91%, respectively. The loans are secured by a fourth and fifth mortgage on the residential component of the project, and all payments are deferred until maturity. The balance receivable for the two loans at June 30, 2016 and 2015, is \$2,044,366 and \$1,979,950, respectively.

At June 30, 2016, the assets and liabilities (unaudited) of Brandywine Health & Housing, LP and Coatesville Health Development Corporation, another participant in the project, were as follows:

	<u>Brandywine Health & Housing, LP</u>	<u>Coatesville Health Development Corporation</u>
ASSETS		
Current assets	\$ 59,307	\$ 492,581
Land and buildings	5,888,653	3,499,016
Intangible assets	12,157	35,339
Escrows at PHFA	<u>424,359</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 6,384,476</u>	<u>\$ 4,026,936</u>
LIABILITIES		
Current liabilities	\$ 669,513	\$ 25,775
Security deposits	13,067	24,551
Loan payable, Brandywine Health Foundation	2,044,366	-
Mortgages and notes payable	<u>2,003,643</u>	<u>4,032,828</u>
TOTAL LIABILITIES	<u>\$ 4,730,589</u>	<u>\$ 4,083,154</u>

NOTE K - COMMITMENTS

Facility Leases

The Foundation leases office facilities under leases that expire in October 2016 and September 2016. Both leases were consolidated and renewed through September 2018.

Effective January 1, 2014, the Foundation subleased some of the office space to the Coatesville Youth Initiative. Rental income of \$5,052 was netted against rent expense for the year ended June 30, 2015. The sublease ended in October 2014.

BRANDYWINE HEALTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE K - COMMITMENTS (Continued)

The following is a schedule by years of future minimum rentals under the lease:

<u>Year Ending June 30,</u>	
2017	\$ 47,735
2018	<u>46,704</u>
	<u>\$ 94,439</u>

Rent expense for the years ended June 30, 2016 and 2015, was \$50,177 and \$51,212, respectively.

NOTE L - SPECIAL EVENTS

Special events consisted of:

	<u>2016</u>			<u>2015</u>		
	<u>Revenues</u>	<u>Costs</u>	<u>Net</u>	<u>Revenues</u>	<u>Costs</u>	<u>Net</u>
Straw berry Festival Garden Party, Festive 5k, and Other Event	\$ 371,945	\$ 232,993	\$ 138,952	\$ 373,209	\$ 243,261	\$ 129,948
	<u>241,032</u>	<u>122,165</u>	<u>118,867</u>	<u>246,618</u>	<u>125,598</u>	<u>121,020</u>
	<u>\$ 612,977</u>	<u>\$ 355,158</u>	<u>\$ 257,819</u>	<u>\$ 619,827</u>	<u>\$ 368,859</u>	<u>\$ 250,968</u>

Additional details of these special community events can be found at www.BrandywineFoundation.org.

BRANDYWINE HEALTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE M - FUNCTIONAL EXPENSES

Functional expenses consisted of:

	2016			Totals	
	Program Services	General and Administrative	Fund-Raising	2016	2015
Grant distributions	\$ 864,137	\$ -	\$ -	\$ 864,137	\$ 1,273,328
Salaries and employee benefits	226,166	130,971	103,680	460,817	418,977
Professional fees	85,158	71,990	11,386	168,534	94,691
Bank fees	-	44	3,875	3,919	16,953
Depreciation & amortization	1,385	579	12,799	14,763	3,265
Dues and subscriptions	5,114	8,859	1,165	15,138	14,794
Interest	-	-	18,349	18,349	-
Insurance	6,921	3,956	4,680	15,557	16,518
Office and supplies	16,081	2,573	7,885	26,539	21,413
Printing and reproduction	26,002	2,200	5,365	33,567	28,130
Program costs	191,840	-	-	191,840	237,815
Public relations and communication	12,955	332	1,083	14,370	10,683
Rent	17,300	13,130	13,402	43,832	39,217
Taxes	-	13,034	1,974	15,008	-
Telephone	6,506	2,488	3,924	12,918	12,055
Training	2,374	424	552	3,350	8,019
Travel, meetings and conferences	2,627	13,978	2,479	19,084	21,742
	<u>\$ 1,464,566</u>	<u>\$ 264,558</u>	<u>\$ 192,598</u>	<u>\$ 1,921,722</u>	<u>\$ 2,217,600</u>

Expenses of special events have been netted with special event revenue on the statements of activities.

NOTE N - PROMISES TO GIVE (GRANTS PAYABLE)

During the year ended June 30, 2014, the Foundation made an unconditional promise to give of \$750,000, with the potential of a maximum three-year grant of \$1,330,000 contingent on ChesPenn Health Services' merger with Chester County Community Dental Center. This contingency requirement was satisfied in July 2014. At June 30, 2016 and 2015, the unpaid balance of the \$1,330,000 unconditional promise to give was \$247,975 and \$644,160, respectively.

During the year ended June 30, 2012, the Foundation made an unconditional promise to give of \$600,000 to the new Public Safety Training Facility in South Coatesville due over the subsequent five years. At June 30, 2016 and 2015, the unpaid balance was \$40,000 and \$80,000, respectively.

During the year ended June 30, 2016, the Foundation made an unconditional promise to give of \$30,000 to the Chester County Health Department due over the subsequent two years. At June 30, 2016, the unpaid balance was \$20,000.

BRANDYWINE HEALTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE N - PROMISES TO GIVE (GRANTS PAYABLE) (Continued)

During the year ended June 30, 2016, the Foundation made an unconditional promise to give of \$210,000 to the Child Guidance Resource Centers due over the subsequent two years. At June 30, 2016, the unpaid balance was \$145,000.

During the year ended June 30, 2016, the Foundation made an unconditional promise to give of \$36,000 to the Coatesville Center for Community Health due over the subsequent two years. At June 30, 2016, the unpaid balance was \$24,000.

During the year ended June 30, 2016, the Foundation made an unconditional promise to give of \$57,000 to the Family Services of Chester County due over the subsequent two years. At June 30, 2016, the unpaid balance was \$39,000.

The following is a schedule of future minimum payments under the promises to give:

<u>Year Ending</u> <u>June 30,</u>	
2017	\$ 398,984
2018	<u>117,000</u>
	<u>\$ 515,984</u>

NOTE O - FAIR VALUE MEASUREMENTS

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access. *Level 2* inputs are other than quoted prices that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. *Level 3* inputs are unobservable inputs based on the Foundation's assumptions used to measure assets and liabilities at fair value. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

BRANDYWINE HEALTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE O - FAIR VALUE MEASUREMENTS (Continued)

Assets of the Foundation for which fair values are determined on a recurring basis are summarized as follows:

	2016			Totals
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Money markets	\$ 905,512	\$ -	\$ -	\$ 905,512
Equity funds	6,085,515	-	-	6,085,515
Alternative funds	109,259	-	-	109,259
International mutual funds	3,418,126	-	-	3,418,126
Hedge funds	-	-	2,181,497	2,181,497
US Treasury notes	435,722	-	-	435,722
Corporate bonds	5,952,500	-	-	5,952,500
Common stocks	4,616,128	-	-	4,616,128
	<u>\$ 21,522,762</u>	<u>\$ -</u>	<u>\$ 2,181,497</u>	<u>\$ 23,704,259</u>
	2015			Totals
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Money markets	\$ 596,595	\$ -	\$ -	\$ 596,595
Equity funds	7,694,463	-	-	7,694,463
Alternative funds	96,260	-	-	96,260
International mutual funds	2,025,343	-	-	2,025,343
Hedge funds	-	-	1,986,872	1,986,872
Corporate bonds	6,002,621	-	-	6,002,621
Common stocks	7,904,664	-	-	7,904,664
	<u>\$ 24,319,946</u>	<u>\$ -</u>	<u>\$ 1,986,872</u>	<u>\$ 26,306,818</u>

The fair value of the hedge funds (Level 3) is calculated by the net asset value of the underlying assets in the fund.

Level 3 assets were 9.20% and 7.55% of total investment assets at fair value for the years ended June 30, 2016 and 2015.

Changes in the Foundation's Level 3 investment assets measured at fair value on a recurring basis are as follows:

BRANDYWINE HEALTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE O - FAIR VALUE MEASUREMENTS (Continued)

	<u>2016</u>	<u>2015</u>
HEDGE FUNDS		
Balance at beginning of year	\$ 1,986,872	\$ -
Purchase of investments	-	1,950,000
Investment income, transfers, disbursements, net	<u>194,625</u>	<u>36,872</u>
BALANCE AT END OF YEAR	<u>\$ 2,181,497</u>	<u>\$ 1,986,872</u>

NOTE P - LETTER OF CREDIT

The Foundation had a \$348,129 bank letter of credit dated April 16, 2015 related to the expansion of the consignment shop. The total amount under this agreement bore a 1.0% fee and expired April 16, 2016. The letter was secured by the assets of the Foundation.

NOTE Q - LINE OF CREDIT

The Foundation entered into a \$1,000,000 line of credit agreement on February 23, 2015 with a bank. Amounts borrowed under this agreement bear interest at the LIBOR Flex Rate plus 1.50%. The line is secured by various investment accounts of the Foundation. Maximum borrowings under the line of credit was \$100,000 in 2015. There was no balance outstanding at June 30, 2016.

BRANDYWINE HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE R - LONG-TERM DEBT

In January 2016, the Foundation entered into a mortgage agreement, secured by the consignment shop building, in the amount of \$688,000. The mortgage will be paid in equal monthly installments of \$3,922, including interest at 4.75% through maturity at January 1, 2041. The outstanding balance at June 30, 2016 was \$681,957.

Required principal payments under the mortgage are as follows:

<u>Year Ending</u> <u>June 30,</u>		
2017	\$	15,000
2018		15,728
2019		16,491
2020		17,292
2021		18,132
Thereafter		<u>599,314</u>
	\$	<u><u>681,957</u></u>

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Board of Directors
Brandywine Health Foundation
Coatesville, Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Brandywine Health Foundation, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated October 24, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Brandywine Health Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Brandywine Health Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Brandywine Health Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.


To the Board of Directors
Brandywine Health Foundation
Coatesville, Pennsylvania

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Brandywine Health Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Oaks, Pennsylvania
October 24, 2016