

BRANDYWINE HEALTH FOUNDATION
(Formerly Brandywine Health & Wellness Foundation)

FINANCIAL STATEMENTS

Years Ended June 30, 2006 and 2005

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Independent Auditors' Report

To the Board of Directors
Brandywine Health Foundation
Coatesville, Pennsylvania

We have audited the accompanying statements of financial position of the Brandywine Health Foundation (formerly Brandywine Health & Wellness Foundation) (a nonprofit organization) as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Maillie, Falconiero & Company, LLP

August 25, 2006

BRANDYWINE HEALTH FOUNDATION
(Formerly Brandywine Health & Wellness Foundation)

STATEMENTS OF FINANCIAL POSITION

June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 4,465,482	\$ 302,947
Investments	22,922,896	24,183,147
Contributions and grants receivable	383,334	666,667
Loan receivable, Brandywine Health & Housing, LP	2,000,000	-
Furniture and office equipment, less accumulated depreciation of \$67,709 (2006) and \$47,251 (2005)	48,517	68,976
Other assets	<u>29,189</u>	<u>88,073</u>
TOTAL ASSETS	<u>\$ 29,849,418</u>	<u>\$ 25,309,810</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Grants payable	\$ 576,500	\$ 810,000
Accounts payable and accrued expenses	53,918	48,841
Notes payable	<u>2,000,000</u>	<u>-</u>
TOTAL LIABILITIES	<u>2,630,418</u>	<u>858,841</u>
NET ASSETS		
Unrestricted	25,758,270	23,024,106
Temporarily restricted	1,354,412	1,320,545
Permanently restricted	<u>106,318</u>	<u>106,318</u>
TOTAL NET ASSETS	<u>27,219,000</u>	<u>24,450,969</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 29,849,418</u>	<u>\$ 25,309,810</u>

See accompanying notes.

BRANDYWINE HEALTH FOUNDATION
(Formerly Brandywine Health & Wellness Foundation)

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2006 and 2005

	Totals		Unrestricted		Temporarily Restricted		Permanently Restricted	
	2006	2005	2006	2005	2006	2005	2006	2005
SUPPORT AND REVENUE								
Contribution from the Estate of Margaret R. Eppihimer	\$ 805,881	\$ 1,000,000	\$ 805,881	\$ 1,000,000	\$ -	\$ -	\$ -	\$ -
Contribution from Brandywine Hospital	-	200,000	-	200,000	-	-	-	-
Contribution from BHS Transitional Corporation	460,305	255,723	460,305	255,723	-	-	-	-
Contributions	208,283	121,945	134,963	124,031	73,320	131,692	-	-
Special events	123,025	121,945	123,025	121,945	-	-	-	-
Investment income	2,429,810	2,140,688	2,422,313	2,138,726	7,497	1,962	-	-
Net assets released from restrictions	-	-	46,950	323,215	(46,950)	(323,215)	-	-
TOTAL SUPPORT AND REVENUE	4,027,304	3,718,356	3,993,437	3,907,917	33,867	(189,561)	-	-
EXPENSES								
Program services	967,772	1,853,178	967,772	1,853,178	-	-	-	-
General and administrative	157,611	157,858	157,611	157,858	-	-	-	-
Fund raising	133,890	132,524	133,890	132,524	-	-	-	-
TOTAL EXPENSES	1,259,273	2,143,560	1,259,273	2,143,560	-	-	-	-
INCREASE (DECREASE) IN NET ASSETS	2,768,031	1,574,796	2,734,164	1,764,357	33,867	(189,561)	-	-
NET ASSETS AT BEGINNING OF YEAR	24,450,969	22,876,173	23,024,106	21,259,749	1,320,545	1,510,106	106,318	106,318
NET ASSETS AT END OF YEAR	\$ 27,219,000	\$ 24,450,969	\$ 25,758,270	\$ 23,024,106	\$ 1,354,412	\$ 1,320,545	\$ 106,318	\$ 106,318

See accompanying notes.

BRANDYWINE HEALTH FOUNDATION
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STATEMENTS OF CASH FLOWS

Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 2,768,031	\$ 1,574,796
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Unrealized gain on investments	(1,083,583)	(1,106,443)
Depreciation	20,458	20,458
(Increase) decrease in contributions and grants receivable	283,333	(666,667)
Increase (decrease) in accounts payable and accruals	(169,538)	706,022
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,818,701</u>	<u>528,166</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchase) sale of investments	2,343,834	(1,337,699)
Loan to Brandywine Health & Housing, LP	(2,000,000)	-
Increase in notes payable	2,000,000	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>2,343,834</u>	<u>(1,337,699)</u>
NET INCREASE (DECREASE) IN CASH	4,162,535	(809,533)
CASH AT BEGINNING OF YEAR	<u>302,947</u>	<u>1,112,480</u>
CASH AT END OF YEAR	<u>\$ 4,465,482</u>	<u>\$ 302,947</u>

See accompanying notes

BRANDYWINE HEALTH FOUNDATION
(Formerly Brandywine Health & Wellness Foundation)
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE A NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The 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 initiate and support programs to improve the health and well being of its community, Central and Western Chester County. The Foundation commenced activities in 2001.

Financial Statement Presentation

The Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required 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

The Foundation adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

BRANDYWINE HEALTH FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

Donated Services

Brandywine Hospital donated services to the Foundation for the 2006 and 2005 Strawberry Festival in the amount of \$23,000 and \$20,000, respectively. These services included general maintenance, coordination of volunteers and food preparation. These amounts have been included as revenues and costs of the Strawberry Festival in the accompanying financial statements.

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.

Investments

The Foundation adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair value and all investments in debt securities are 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.

Use of Estimates

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

BRANDYWINE HEALTH FOUNDATION
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 NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

Pension Plan

The Foundation sponsors a SIMPLE IRA deferred compensation plan for all eligible employees. Eligibility requirements mandate that an employee work a minimum of 1,000 hours a year and meet the requirements of the Master Policy. 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. The Foundation made matching contributions of \$7,123 during the year ended June 30, 2006, and \$6,827 during the year ended June 30, 2005.

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.

Furniture and Office Equipment

Furniture and office equipment are stated at cost. Depreciation is calculated by the straight-line method over the estimated useful life of the assets.

NOTE B CASH

Cash consisted of:

	<u>2006</u>	<u>2005</u>
Bank checking and money market accounts	\$ 4,053,335	\$ 249,799
Uninsured money market mutual funds	<u>412,147</u>	<u>53,148</u>
	<u>\$ 4,465,482</u>	<u>\$ 302,947</u>

At June 30, 2006, bank account balances in excess of federally insured limits were \$3,920,000.

BRANDYWINE HEALTH FOUNDATION
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June 30, 2006 and 2005

NOTE C INVESTMENTS

Investments at fair value consisted of the following mutual funds:

	<u>2006</u>	<u>2005</u>
Vanguard Global Equity Fund	\$ 4,487,948	\$ 4,450,461
Dodge and Cox Stock Fund	3,243,443	2,813,323
G. E. Premier Growth Fund	2,717,476	2,638,933
Vanguard Index 500 Fund	2,707,137	2,493,002
PIMCO Total Return Fund	2,277,431	1,507,727
PIMCO Moderate Duration Fund	2,213,378	3,929,049
Harbor Fund International	1,669,421	-
Royce Pennsylvania Fund	1,383,886	1,188,907
Vanguard Explorer Fund	1,288,065	1,136,697
T. Rowe Price REIT Fund	934,711	1,126,534
PIMCO Total Return II Fund	-	2,412,497
Vanguard REIT Index Fund	-	486,017
	<u>\$ 22,922,896</u>	<u>\$ 24,183,147</u>

Investment income consisted of:

	<u>2006</u>	<u>2005</u>
Interest	\$ 84,937	\$ 3,176
Dividends	1,016,019	817,773
Realized gain	245,271	213,296
Unrealized gain	<u>1,083,583</u>	<u>1,106,443</u>
	<u>\$ 2,429,810</u>	<u>\$ 2,140,688</u>

NOTE D CONTRIBUTION FROM 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 assets retained by BHS Transitional Corporation will be used to repay certain obligations not assumed by the buyer, with the balance donated to the Foundation.

BRANDYWINE HEALTH FOUNDATION
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NOTE E RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2006:

Emergency medical programs	\$ 1,272,364
Nursing scholarships	32,048
Donor advised, trauma assessment	<u>50,000</u>
	<u>\$ 1,354,412</u>

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

During the years ended June 30, 2006 and 2005, the Foundation released funds from donor restrictions by making expenditures for:

	<u>2006</u>	<u>2005</u>
Donor advised grants	\$ -	\$ 122,735
Emergency medical programs	40,500	95,748
Women's health needs	-	88,282
Nursing scholarships	<u>6,450</u>	<u>16,450</u>
	<u>\$ 46,950</u>	<u>\$ 323,215</u>

BRANDYWINE HEALTH FOUNDATION
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NOTE F 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 three Foundation board members, the Foundation's President/CEO and a member of the Coatesville community. The Foundation and the General Partner have entered into a limited partnership, Brandywine Health & Housing, LP (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 is the sponsor and co-developer of the entire project and will guarantee the obligations of the General Partner. It is expected that the Foundation will be replaced as the limited partner in 2007.

In connection with this project:

- The Foundation secured \$2,000,000 of bridge loans from First Financial & Willow Grove Bank. These loans bear interest at rates related to LIBOR and are secured by mutual fund assets of the Foundation with a value of at least \$4,000,000. Interest is payable monthly, and principal is due on September 1, 2007.
- The Foundation lent these funds to the LP to cover acquisition and development costs for the building. The LP pays the Foundation interest income in amounts equal to the interest expense incurred by the Foundation.
- The LP purchased nine properties in the 700 block in question, as well as a parking lot across Chester Avenue to accommodate overflow parking needs for the facility.

At June 30, 2006, the assets and liabilities of the LP were as follows:

ASSETS	
Cash	\$ 294,502
Land and buildings	963,063
Development costs	<u>747,138</u>
	<u>\$ 2,004,703</u>
 LIABILITIES	
Loan payable, Brandywine Health Foundation	<u>\$ 2,000,000</u>

BRANDYWINE HEALTH FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
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NOTE G LEASE OBLIGATION

Effective February 1, 2006, the Foundation leases its office facility under a three-year lease. Required minimum rental payments are as follows:

<u>Year Ending June 30,</u>	
2007	\$ 26,386
2008	27,177
2009	<u>16,128</u>
	<u>\$ 69,691</u>

The lease contains two renewal options with a term of one year each. The minimum rent will be increased at the rate of 3% per year for each renewal option.

NOTE H SPECIAL EVENTS

Special events consisted of:

	<u>2006</u>		
	<u>Revenues</u>	<u>Costs</u>	<u>Net</u>
Strawberry Festival	\$ 312,822	\$ 226,889	\$ 85,933
Garden Party and other	<u>77,786</u>	<u>40,694</u>	<u>37,092</u>
	<u>\$ 390,608</u>	<u>\$ 267,583</u>	<u>\$ 123,025</u>
	<u>2005</u>		
	<u>Revenues</u>	<u>Costs</u>	<u>Net</u>
Strawberry Festival	\$ 291,175	\$ 199,003	\$ 92,172
Garden Party and other	<u>67,975</u>	<u>38,202</u>	<u>29,773</u>
	<u>\$ 359,150</u>	<u>\$ 237,205</u>	<u>\$ 121,945</u>

BRANDYWINE HEALTH FOUNDATION
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 NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE I **FUNCTIONAL EXPENSES**

Functional expenses consisted of:

	2006				2005 Totals
	Program Services	General and Administrative	Fund Raising	Totals	
Grant distributions	\$ 710,529	\$ -	\$ -	\$ 710,529	\$ 1,668,410
Salaries and employee benefits	102,616	50,633	74,437	227,686	214,559
Professional fees	16,211	88,363	19,288	123,862	123,877
Depreciation	8,285	6,098	6,075	20,458	20,458
Insurance	2,363	1,155	1,734	5,252	4,132
Interest	59,920	-	-	59,920	-
Office and supplies	5,505	3,018	5,667	14,190	14,905
Printing and reproduction	16,670	1,258	16,060	33,988	32,600
Program costs	31,178	-	-	31,178	32,469
Rent	10,375	5,072	7,608	23,055	22,320
Telephone	3,073	1,502	2,254	6,829	6,879
Training	191	94	140	425	1,664
Travel	856	418	627	1,901	1,287
	<u>\$ 967,772</u>	<u>\$ 157,611</u>	<u>\$ 133,890</u>	<u>\$ 1,259,273</u>	<u>\$ 2,143,560</u>