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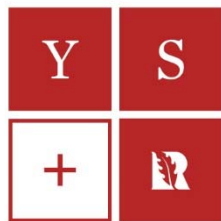
**BROTHER BENNO FOUNDATION, INC.**

FINANCIAL STATEMENTS

July 31, 2017 and 2016

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YSR CPA GROUP, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
AUDIT + TAX + ADVISORY

**BROTHER BENNO FOUNDATION, INC.**  
**FINANCIAL STATEMENTS**  
July 31, 2017 and 2016

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
of the Brother Benno Foundation, Inc.

We have audited the accompanying financial statements of the Brother Benno Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of July 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Brother Benno Foundation, Inc. as of July 31, 2017 and 2016, 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.

*YSR CPA Group, P.C.*

Encinitas, California  
August 31, 2018

**BROTHER BENNO FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
July 31, 2017 and 2016

	<u>7/31/17</u>	<u>7/31/16</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 206,331	\$ 422,085
Investments, current	311,919	145,849
Accounts receivable and other current assets	3,187	7,304
Inventory	<u>51,373</u>	<u>-</u>
TOTAL CURRENT ASSETS	572,810	575,238
<b>OTHER NON-CURRENT ASSETS</b>		
Investments, non current	1,355,643	1,301,816
Investments, permanently restricted by donor endowment	503,000	503,000
Property and equipment, net of accumulated depreciation	1,457,305	1,502,165
Deposits	<u>12,512</u>	<u>12,512</u>
TOTAL NON-CURRENT ASSETS	<u>3,328,460</u>	<u>3,319,493</u>
TOTAL ASSETS	<u>\$ 3,901,270</u>	<u>\$ 3,894,731</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 14,995	\$ 13,914
Accrued expenses	<u>9,018</u>	<u>14,380</u>
TOTAL CURRENT LIABILITIES	24,013	28,294
<b>REFUNDABLE ADVANCES</b>	<u>508,150</u>	<u>508,150</u>
TOTAL LIABILITIES	<u>\$ 532,163</u>	<u>\$ 536,444</u>
<b>COMMITMENTS &amp; CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Unrestricted	2,511,682	2,538,261
Temporarily restricted	354,425	317,026
Permanently restricted	<u>503,000</u>	<u>503,000</u>
TOTAL NET ASSETS	<u>3,369,107</u>	<u>3,358,287</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,901,270</u>	<u>\$ 3,894,731</u>

See accompanying independent auditors' report and notes to financial statements.

**BROTHER BENNO FOUNDATION, INC.****STATEMENT OF ACTIVITIES**

For the Year Ended July 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 2,767,140	\$ 154,224	\$ -	\$ 2,921,364
Thrift shop sales	641,995	-	-	641,995
Rental and other income	130,456	-	-	130,456
Investment return (loss)	4,955	(1,632)	-	3,323
Net assets released from restrictions, satisfaction of program restrictions	<u>115,193</u>	<u>(115,193)</u>	<u>-</u>	<u>-</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<b>3,659,739</b>	<b>37,399</b>	<b>-</b>	<b>3,697,138</b>
<b>EXPENSES</b>				
Program services - residential, food and health services	3,023,428	-	-	3,023,428
Supporting services				
Thrift shop	621,285	-	-	621,285
Management and general	26,642	-	-	26,642
Fundraising	<u>14,963</u>	<u>-</u>	<u>-</u>	<u>14,963</u>
<b>TOTAL EXPENSES</b>	<b>3,686,318</b>	<b>-</b>	<b>-</b>	<b>3,686,318</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(26,579)</b>	<b>37,399</b>	<b>-</b>	<b>10,820</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u><b>2,538,261</b></u>	<u><b>317,026</b></u>	<u><b>503,000</b></u>	<u><b>3,358,287</b></u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u><b>\$ 2,511,682</b></u></u>	<u><u><b>\$ 354,425</b></u></u>	<u><u><b>\$ 503,000</b></u></u>	<u><u><b>\$ 3,369,107</b></u></u>

See accompanying independent auditors' report and notes to financial statements.

**BROTHER BENNO FOUNDATION, INC.****STATEMENT OF ACTIVITIES**

For the Year Ended July 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 2,861,000	\$ 122,162	\$ -	\$ 2,983,162
Thrift shop sales	660,371	-	-	660,371
Rental and other income	112,861	-	-	112,861
Investment return	28,115	27,359	-	55,474
Gain on disposal of asset	111	-	-	111
Net assets released from restrictions, satisfaction of program restrictions	<u>106,789</u>	<u>(106,789)</u>	<u>-</u>	<u>-</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<b>3,769,247</b>	<b>42,732</b>	<b>-</b>	<b>3,811,979</b>
<b>EXPENSES</b>				
Program services - residential, food and health services	2,515,462	-	-	2,515,462
Supporting services				
Thrift shop	581,331	-	-	581,331
Management and general	31,595	-	-	31,595
Fundraising	<u>20,435</u>	<u>-</u>	<u>-</u>	<u>20,435</u>
<b>TOTAL EXPENSES</b>	<b>3,148,823</b>	<b>-</b>	<b>-</b>	<b>3,148,823</b>
<b>INCREASE IN NET ASSETS</b>	<b>620,424</b>	<b>42,732</b>	<b>-</b>	<b>663,156</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u><b>1,917,837</b></u>	<u><b>274,294</b></u>	<u><b>503,000</b></u>	<u><b>2,695,131</b></u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u><b>\$ 2,538,261</b></u></u>	<u><u><b>\$ 317,026</b></u></u>	<u><u><b>\$ 503,000</b></u></u>	<u><u><b>\$ 3,358,287</b></u></u>

See accompanying independent auditors' report and notes to financial statements.

**BROTHER BENNO FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended July 31, 2017

	Program Services	Supporting Services			Total
		Thrift Shop	Management and General	Fundraising	
Accounting	\$ -	\$ -	\$ 8,163	\$ -	\$ 8,163
Advertising	-	865	-	-	865
Automobile	33,899	11,765	-	-	45,664
Bank Service Charges	-	33	2,674	18	2,725
Books	576	-	-	-	576
Charitable Deeds	155,864	-	-	-	155,864
Contract Labor	4,960	279	-	-	5,239
Credit Card Charges	-	9,529	-	-	9,529
Depreciation	96,927	1,030	719	539	99,215
Drug & Alcohol Test	7,711	-	-	-	7,711
Dues and Subscriptions	-	-	480	-	480
Dump Fees	985	-	-	-	985
Equipment Rental	5,987	697	131	98	6,913
Food	89,129	-	-	-	89,129
Fundraising	-	-	-	2,223	2,223
Health Permits	250	-	-	-	250
In-Kind Charitable Gifts	1,731,217	-	-	-	1,731,217
Insurance	29,853	5,786	1,023	210	36,872
Legal	2,231	2,231	-	-	4,462
Membership Expense	-	-	-	1,087	1,087
Miscellaneous Expense	8,755	-	266	-	9,021
Necessity Allowances	31,181	-	-	-	31,181
Office	-	9,089	-	-	9,089
Payroll Services	2,410	2,693	-	-	5,103
Payroll Taxes	28,343	28,410	-	-	56,753
Postage & Delivery	24,808	2	212	783	25,805
Printing	12,736	315	62	4,716	17,829
Professional Fees	26,068	-	-	-	26,068
Property Taxes	316	-	-	-	316
Rent	170,040	172,387	6,717	3,091	352,235
Repairs & Maintenance	18,140	4,722	-	-	22,862
Salaries	313,802	311,043	-	-	624,845
Security	2,598	100	133	-	2,831
Seminars and Education	1,085	-	-	-	1,085
Supplies	76,337	11,450	1,543	-	89,330
Taxes & Licenses	-	-	150	-	150
Telephone	28,810	2,502	2,077	478	33,867
Utilities	94,932	22,752	2,292	1,720	121,696
Workers Comp Insurance	23,478	23,605	-	-	47,083
	<u>\$ 3,023,428</u>	<u>\$ 621,285</u>	<u>\$ 26,642</u>	<u>\$ 14,963</u>	<u>\$ 3,686,318</u>

See accompanying independent auditors' report and notes to financial statements.

**BROTHER BENNO FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended July 31, 2016

	Supporting Services				Total
	Program Services	Thrift Shop	Management and General	Fundraising	
Accounting	\$ -	\$ -	\$ 13,433	\$ -	\$ 13,433
Advertising	-	158	-	-	158
Automobile	43,702	11,879	45	-	55,626
Bank Service Charges	-	48	2,768	3	2,819
Charitable Deeds	128,284	-	-	-	128,284
Contract Labor	4,100	-	-	-	4,100
Credit Card Charges	-	9,173	-	-	9,173
Depreciation	93,097	1,705	426	320	95,548
Drug & Alcohol Test	8,442	-	-	-	8,442
Dues and Subscriptions	107	-	480	-	587
Equipment Rental	4,869	1,332	167	99	6,467
Food	87,527	-	-	-	87,527
Fundraising	-	-	-	11,388	11,388
In-Kind Charitable Gifts	1,328,285	-	-	-	1,328,285
Insurance	61,088	24,913	287	15	86,303
Legal	-	-	220	-	220
Licenses	95	-	-	-	95
Membership Expense	-	-	-	1,506	1,506
Miscellaneous Expense	2,049	-	373	162	2,584
Payroll Services	5,093	619	-	-	5,712
Payroll Taxes	24,979	29,910	-	-	54,889
Postage & Delivery	24,536	-	50	-	24,586
Printing	17,196	83	-	-	17,279
Professional Fees	24,282	-	18	1,039	25,339
Property Taxes	316	-	-	-	316
Rent	170,344	177,101	6,717	3,091	357,253
Repairs & Maintenance	25,743	685	774	11	27,213
Security	2,862	84	323	22	3,291
Salaries	268,746	276,676	-	-	545,422
Supplies	67,414	23,718	1,350	485	92,967
Taxes & Licenses	31,055	2,472	1,857	564	35,948
Telephone	178	-	-	-	178
Utilities	91,073	20,775	2,307	1,730	115,885
	<u>\$ 2,515,462</u>	<u>\$ 581,331</u>	<u>\$ 31,595</u>	<u>\$ 20,435</u>	<u>\$ 3,148,823</u>

See accompanying independent auditors' report and notes to financial statements.



**BROTHER BENNO FOUNDATION, INC.****STATEMENTS OF CASH FLOWS**

For the Years Ended July 31, 2017 and 2016

	<u>7/31/17</u>	<u>7/31/16</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 10,820	\$ 663,156
Adjustments to reconcile change in net assets to net cash and cash equivalents provided (used) by operating activities:		
Investment gains (losses)	32,115	(23,211)
Depreciation	99,215	8,442
Gain on disposal of asset	-	(111)
Donated resale inventory	(51,373)	-
Changes in operating assets and liabilities:		
Accounts receivable and other assets	4,117	(919)
Accounts payable	(4,281)	(25,818)
Accrued expenses and other payable	-	(26,583)
	<u>90,613</u>	<u>594,956</u>
NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES	90,613	594,956
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(54,355)	(61,646)
Purchases of investments, net	<u>(252,012)</u>	<u>(622,993)</u>
NET CASH AND CASH EQUIVALENTS USED BY INVESTING ACTIVITIES	<u>(306,367)</u>	<u>(684,639)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(215,754)	(89,683)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>422,085</u>	<u>424,662</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u><u>206,331</u></u>	\$ <u><u>422,085</u></u>

See accompanying independent auditors' report and notes to financial statements.

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended July 31, 2017 and 2016

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**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Activities

Brother Benno Foundation, Inc. (Foundation) was organized as a California nonprofit public benefit corporation in 1983 to provide assistance to the poor and needy in North San Diego County through congregate feeding, distribution of food, clothing, and offering temporary shelter, counseling, training, and support services to persons in substance-abuse programs. The Foundation is supported through donor contributions, and private and government grants.

Financial Statement Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Foundation's net assets and its revenues, expenses, gains and losses are reported based on the existence or absence of donor-imposed restrictions. The Foundation reports information regarding its financial position and operations according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- *Unrestricted net assets* represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- *Temporarily restricted net assets* consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Foundation may spend the funds.
- *Permanently restricted net assets* are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Fair Value Measurements

In accordance with Financial Accounting Standards Board Codification No. 820 (FASB ASC 820) fair value is defined as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Foundation applies fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles.

FASB ASC 820 establishes a three-tier hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs and to establish the classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended July 31, 2017 and 2016

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**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fair Value Measurements (continued)

Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The standard describes three-tier hierarchy of inputs that may be used to measure fair value:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Due to the short-term nature of cash, receivables, other assets, accounts payable and accrued expenses, fair value approximates carrying value.

Cash and Cash Equivalents

Cash and cash equivalents consist of short term, highly liquid investments with an initial maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Accounts Receivable

The accounts receivables arise in the normal course of operations. It is the policy of management to review the outstanding accounts receivable at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. Management considers accounts receivable to be fully collectible. Accordingly, no allowance is considered necessary at July 31, 2017 and 2016.

Investments

Investments are carried at fair value on the statements of financial position. Investment return (including realized and unrealized gains and losses on investments, interest and dividends, and investment expense) is included in the change in unrestricted net assets unless restricted by donor or law.

Endowments

The Foundation records endowments in accordance with the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. The standard requires additional disclosures about an organization's endowment funds (both donor-restricted and board designated endowment funds), whether or not the organization is subject to UPMIFA. The standard also requires classifying the portion of a donor-restricted endowment that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure.

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended July 31, 2017 and 2016

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**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Property and Equipment

The Foundation capitalizes all expenditures in excess of \$500 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of five to forty years.

Items that are useable by others are either donated to individuals, directed to other nonprofit foundations, or sold for cash, in which case the amount received is reflected as a contribution in the financial statements. Expenditures for maintenance and repairs are charged against operations.

Contributions and Support

Contributions are recognized when unconditionally promised to or received by the Foundation. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Restrictions on gifts of property and equipment or cash for the purchase of property and equipment expire when the asset is placed in service.

Contributed Materials, Food and Services

Contributed materials and food are recorded at their fair market value where an objective basis is available to measure their value. Such items are capitalized or charged to expense as appropriate. The Foundation recognized in-kind income of \$1,784,074 and \$1,343,885 for the years ended July 31, 2017 and 2016, respectively, and in-kind expense of \$1,731,217 and \$1,328,285 for the years ended July 31, 2017 and 2016, respectively, in the statement of activities.

The Foundation utilizes the services of volunteers throughout the year that perform a variety of tasks that assist the Foundation with various programs. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The services do not meet the criteria for recognition as a contribution and are not reflected in the financial statements.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(6) and Section 501(c)3, respectively, of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Foundation have been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. Income generated from activities unrelated to the Foundation's exempt purpose is subject to tax under IRC Section 511. The Foundation did not have any unrelated business income for the years ended July 31, 2017 and 2016, respectively, and, therefore, no provision for income taxes has been made.

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended July 31, 2017 and 2016

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**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Income Taxes (continued)

The Foundation follows the provision of uncertain tax positions as addressed in FASB Accounting Standards Codification. The Foundation recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. The Foundation believes that it has taken no significant uncertain tax positions for the years ended July 31, 2017 and 2016. Management believes the Foundation is no longer subject to income tax examinations by applicable taxing jurisdictions for the years prior to July 31, 2013.

Advertising

The Foundation expenses the cost of advertising as incurred. Advertising expense for the years ended July 31, 2017 and 2016 was \$865 and \$158, respectively.

Recent Accounting Pronouncements

In January 2016, the FASB issued ASU No. 2016-01 Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). ASU 2016-01 enhances the existing financial instruments reporting model by modifying fair value measurement tools and modifying overall presentation and disclosure requirements. The provisions of ASU 2016-01 are effective for annual periods beginning after December 15, 2017, on a prospective basis. Management is evaluating the impact of adoption of ASU 2016-01.

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Financial Statement Presentation, which eliminates the requirement for non-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs will be required to classify net assets as net assets with donor restrictions or without donor restrictions. Among other things, the guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs will also be required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 are effective for annual periods beginning after December 15, 2017 and interim periods thereafter. Early adoption is permitted. Management has not completed the process of evaluating the impact of ASU 2016-14 on its financial statements.

**NOTE 2. CONCENTRATION OF CREDIT RISK**

Cash

Financial instruments that potentially subject the Foundation to significant concentrations of credit risk consist principally of cash. The Foundation maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor. At July 31, 2017 and 2016, no balance exceeded FDIC limit of \$250,000.

Risks and Uncertainties

The Foundation is invested in a variety of investments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended July 31, 2017 and 2016

**NOTE 3. INVESTMENTS**

The following table represents the financial instruments carried at fair value as of July 31, 2017, by caption on the statements of financial position by the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities				
Biopharmaceutical	\$ 56,900	\$ -	\$ -	\$ 56,900
Energy	68,055	-	-	68,055
Natural gas	83,750	-	-	83,750
Technology	48,400	-	-	48,400
Bond fund	110,453	-	-	110,453
Fixed income	1,399,026	-	-	1,399,026
Certificate of deposits and money market accounts (FDIC)	<u>403,978</u>	<u>-</u>	<u>-</u>	<u>403,978</u>
	<u>\$ 2,170,562</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,170,562</u>

The following table presents the financial instruments carried at fair value as of July 31, 2016, by caption on the statement of financial position by the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities				
Biopharmaceutical	\$ 74,810	\$ -	\$ -	\$ 74,810
Energy	61,230	-	-	61,230
Natural gas	76,060	-	-	76,060
Technology	55,410	-	-	55,410
Bond fund	109,812	-	-	109,812
Fixed income	1,158,621	-	-	1,158,621
Certificate of deposits and money market accounts (FDIC)	<u>414,722</u>	<u>-</u>	<u>-</u>	<u>1,573,343</u>
	<u>\$ 1,950,665</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,950,665</u>

Investment income in the statements of activities consists of the following at July 31:

	<u>7/31/17</u>	<u>7/31/16</u>
Dividends and interest	\$ 35,438	\$ 32,247
Net realized and unrealized gains (losses)	<u>(32,115)</u>	<u>23,211</u>
	<u>\$ 3,323</u>	<u>\$ 55,474</u>

See accompanying independent auditors' report.

**BROTHER BENNO FOUNDATION, INC.**  
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**NOTE 4. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at July 31:

	<u>7/31/17</u>	<u>7/31/16</u>
Buildings	\$ 1,689,786	\$ 1,689,786
Equipment, furniture and fixtures	225,191	194,572
Leasehold improvements	97,388	79,636
Automobiles	<u>290,205</u>	<u>284,221</u>
	2,302,570	2,248,215
Less accumulated depreciation	<u>(1,262,024)</u>	<u>(1,162,809)</u>
	1,040,546	1,086,473
Land	<u>416,759</u>	<u>416,759</u>
	<u>\$ 1,457,305</u>	<u>\$ 1,502,165</u>

Depreciation expense for the years ended July 31, 2017 and 2016 was \$99,215 and \$95,548, respectively.

**NOTE 5. COMPENSATED ABSENCES**

Compensated absences for sick pay and personal time have not been accrued since they cannot be reasonably estimated. The Foundation's policy is to recognize these costs when actually paid.

**NOTE 6. REFUNDABLE ADVANCES**

Properties held by the Foundation were remodeled during the year ended July 31, 2007 with advances made by the City of Oceanside. The advances bear no interest and are not required to be repaid with the stipulation that the houses remain available for low income households or to provide transitional housing for a period of 15 years. The advances are secured by deeds of trust and loan agreements.

Refundable advances consist of the following at July 31:

	<u>7/31/17</u>	<u>7/31/16</u>
Promissory note to the City of Oceanside for 434 Grant Street, Oceanside, CA 92054.	\$ 150,582	\$ 150,582
Promissory note to the City of Oceanside for 430 Grant Street, Oceanside, CA 92054.	150,582	150,582
Promissory note to the City of Oceanside for 3258 Carolyn Circle, Oceanside, CA 92054.	<u>206,986</u>	<u>206,986</u>
	<u>\$ 508,150</u>	<u>\$ 508,150</u>

See accompanying independent auditors' report.

**BROTHER BENNO FOUNDATION, INC.**  
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**NOTE 7. RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets are available for the following at July 31:

	<u>7/31/17</u>	<u>7/31/16</u>
Health services	\$ 12,058	\$ 8,160
Other programs	23,246	20,838
Property and equipment	52,332	19,607
Unappropriated endowment earnings	<u>266,789</u>	<u>268,421</u>
	<u>\$ 354,425</u>	<u>\$ 317,026</u>

**NOTE 8. ENDOWMENT**

The Foundation's endowment consists of donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner that is consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Foundation and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Foundation
- 7) The investment policies of the Foundation

At July 31, 2017, the endowment net assets composition by type of fund consists of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 266,789	\$ 503,000	\$ <u>769,789</u>

See accompanying independent auditors' report.



**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended July 31, 2017 and 2016

**NOTE 8. ENDOWMENT (continued)**

Changes in endowment net assets for the year ended July 31, 2017, consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 268,421	\$ 503,000	\$ 771,421
Investment loss	-	(1,632)	-	(1,632)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 266,789</u>	<u>\$ 503,000</u>	<u>\$ 769,789</u>

At July 31, 2016, the endowment net assets composition by type of fund consists of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 268,421	\$ 503,000	\$ 771,421

Changes in endowment net assets for the year ended July 31, 2016, consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 241,062	\$ 503,000	\$ 744,062
Investment income	-	27,359	-	27,359
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 268,421</u>	<u>\$ 503,000</u>	<u>\$ 771,421</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, a deficiency of this nature is reported as unrestricted net assets. There were no such deficiencies as of July 31, 2017 and 2016.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide funding for the operating expenses of programs supported by its endowments. In order to meet this objective, the endowment asset portfolio is structured to achieve a compounded annual return, net of investment management expenses, of 6% plus the annual rate of inflation (target return) over ten years. In achieving the target return, the Foundation seeks to maintain a level of portfolio risk, as measured by the annualized monthly standard deviation, commensurate with the portfolio's market-related index. The market-related index is made up of selected market indices that are representative of the asset classes in which the portfolio is invested, and which is weighted in the same percentages as the asset classes in which the portfolio is invested.

See accompanying independent auditors' report.

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended July 31, 2017 and 2016

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**NOTE 9. LEASE COMMITMENTS AND RELATED PARTY TRANSACTIONS**

The Foundation leases several properties, including its operations center, warehouse, thrift shop, and an employees' residence. The operations center lease is on a "net lease" basis, wherein the Foundation is responsible for insurance and maintenance. The Foundation paid rent to the Foundation's executive director for the operations center and the employees' residence. Total rent paid to the executive director was \$128,236 for the years ended July 31, 2017 and 2016. Total rent paid for the thrift shop under noncancelable leases was \$139,300 and \$150,005 for the years ended July 31, 2017 and 2016, respectively.

Minimum future lease payments under these operating lease agreements at July 31, 2017 are due as follows:

Year Ending July 31,	
2018	\$ 187,183
2019	<u>187,183</u>
	<u>\$ 374,366</u>

**NOTE 10. SPLIT-INTEREST GIFTS**

The Foundation is a beneficiary of a split-interest irrevocable charitable remainder trust which was created in 1993. Upon termination of the trust, the Foundation will receive 33.33% of the assets remaining in the trust. The trust fund is held by others and the present value of the estimated future amount to be received from the trust is not estimable therefore the investment has not been recorded.

**NOTE 11. FUNCTIONAL ALLOCATION OF EXPENSES**

The Foundation allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimates made by management.

**NOTE 12. CONTINGENCIES**

From time to time, the Foundation is subject to various litigation as a result of its ongoing business activities. Management believes that the outcome of any such litigation will not have a material adverse effect on the Foundation's statement of financial position, results of operations, or liquidity.

**NOTE 13. RECLASSIFICATIONS**

Certain items in the 2016 financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.

**NOTE 14. SUBSEQUENT EVENTS**

In March 2018, Harold Kutler, the Executive Director, passed away triggering the provisions of the Kutler Charitable Remainder Trust and the Kutler Family Trust.

Until the time of Mr. Kutler's death, one half of the rental payments for the Foundation's operations center located at 3260 Production Ave were paid to the Kutler Charitable Remainder Trust and one half was paid to the Kutler Family Trust. Effective March 2018, the Foundation ceased rental payments to the Kutler Charitable Remainder Trust and effective September 1, 2018, the Foundation will cease rental payments to the Kutler Family Trust for space occupied at 3260 Production Ave.

See accompanying independent auditors' report.

**BROTHER BENNO FOUNDATION, INC.**  
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**NOTE 14. SUBSEQUENT EVENTS (continued)**

The Kutler Charitable Remainder Trust and the Kutler Family Trust, respectively, own one-half of the real estate property located at 3260 Production Ave. The Foundation is the 100% beneficiary of the real estate property located at 3260 Production Ave. In July 2018, the Foundation was notified that the Kutler Family Trust was being contested by one of the surviving beneficiaries. The outcome of the litigation is unknown as of the issuance of these financial statements.

The Foundation has evaluated subsequent events through August 31, 2018, the date which the financial statements were available to be issued.