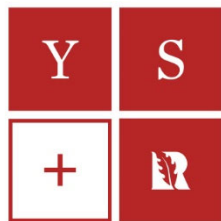

BROTHER BENNO FOUNDATION, INC.

FINANCIAL STATEMENTS

July 31, 2018 and 2017

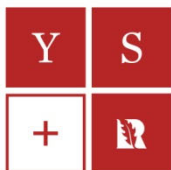


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BROTHER BENNO FOUNDATION, INC.
FINANCIAL STATEMENTS
July 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Report on Summarized Comparative Information

We have previously audited Brother Benno Foundation, Inc.'s financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 31, 2018. In our opinion, the summarized comparative information presented on the statement of functional expenses for the year ended July 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

YSR CPA Group, P.C.

Encinitas, California
May 30, 2019

BROTHER BENNO FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
July 31, 2018 and 2017

	<u>7/31/18</u>	<u>7/31/17</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 612,323	\$ 206,331
Investments, current	443,754	311,919
Accounts receivable and other current assets	10,709	3,187
Inventory	<u>54,042</u>	<u>51,373</u>
TOTAL CURRENT ASSETS	1,120,828	572,810
OTHER NON-CURRENT ASSETS		
Investments, non current	929,421	1,355,643
Investments, permanently restricted by donor endowment	503,000	503,000
Property and equipment, net of accumulated depreciation	1,419,075	1,457,305
Deposits	<u>17,512</u>	<u>12,512</u>
TOTAL NON-CURRENT ASSETS	<u>2,869,008</u>	<u>3,328,460</u>
TOTAL ASSETS \$	<u><u>3,989,836</u></u>	<u><u>3,901,270</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 5,365	\$ 14,995
Accrued expenses	<u>40,159</u>	<u>9,018</u>
TOTAL CURRENT LIABILITIES	45,524	24,013
REFUNDABLE ADVANCES	<u>508,150</u>	<u>508,150</u>
TOTAL LIABILITIES \$	<u><u>553,674</u></u>	<u><u>532,163</u></u>
COMMITMENTS & CONTINGENCIES		
NET ASSETS		
Unrestricted	2,573,498	2,511,682
Temporarily restricted	359,664	354,425
Permanently restricted	<u>503,000</u>	<u>503,000</u>
TOTAL NET ASSETS	<u>3,436,162</u>	<u>3,369,107</u>
TOTAL LIABILITIES AND NET ASSETS \$	<u><u>3,989,836</u></u>	<u><u>3,901,270</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, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 1,038,823	\$ 69,698	\$ -	\$ 1,108,521
In-kind contributions	2,981,350	-	-	2,981,350
Thrift shop sales	630,755	-	-	630,755
Rental and other income	168,435	-	-	168,435
Investment return	8,038	33,435	-	41,473
Net assets released from restrictions, satisfaction of program restrictions	<u>97,894</u>	<u>(97,894)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	4,925,295	5,239	-	4,930,534
EXPENSES				
Program services - residential, food and health services	4,210,472	-	-	4,210,472
Supporting services				
Thrift shop	601,861	-	-	601,861
Management and general	27,931	-	-	27,931
Fundraising	<u>23,215</u>	<u>-</u>	<u>-</u>	<u>23,215</u>
TOTAL EXPENSES	4,863,479	-	-	4,863,479
INCREASE IN NET ASSETS	61,816	5,239	-	67,055
NET ASSETS AT BEGINNING OF YEAR	<u>2,511,682</u>	<u>354,425</u>	<u>503,000</u>	<u>3,369,107</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 2,573,498</u></u>	<u><u>\$ 359,664</u></u>	<u><u>\$ 503,000</u></u>	<u><u>\$ 3,436,162</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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 983,066	\$ 154,224	\$ -	\$ 1,137,290
In-kind contributions	1,784,074	-	-	1,784,074
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>
TOTAL SUPPORT AND REVENUE	3,659,739	37,399	-	3,697,138
EXPENSES				
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>
TOTAL EXPENSES	3,686,318	-	-	3,686,318
INCREASE (DECREASE) IN NET ASSETS	(26,579)	37,399	-	10,820
NET ASSETS AT BEGINNING OF YEAR	<u>2,538,261</u>	<u>317,026</u>	<u>503,000</u>	<u>3,358,287</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 2,511,682</u></u>	<u><u>\$ 354,425</u></u>	<u><u>\$ 503,000</u></u>	<u><u>\$ 3,369,107</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, 2018 with summarized comparative totals for the year ended July 31, 2017

	Program Services	Supporting Services			2018 Total Expenses	2017 Total Expenses
		Thrift Shop	Management and General	Fundraising		
Advertising	\$ -	\$ 583	\$ -	\$ -	\$ 583	\$ 865
Auto	41,396	14,413	-	-	55,809	45,664
Charitable In-Kind	2,978,681	-	-	-	2,978,681	1,731,217
Depreciation	101,044	1,221	963	722	103,950	99,215
Direct Program Expense	67,386	-	-	-	67,386	96,840
Equipment Rental	9,148	282	196	147	9,773	6,913
Fundraising	-	-	-	12,818	12,818	8,310
Grants and Other Assistance	163,270	-	-	-	163,270	182,045
Insurance	46,907	30,978	937	255	79,077	83,955
Miscellaneous	7,610	1,004	1,870	2,079	12,563	11,237
Occupancy	260,350	192,169	5,467	4,095	462,081	477,077
Office Expenses	33,402	23,963	5,209	1,783	64,357	61,834
Payroll Taxes	32,067	28,920	-	-	60,987	56,753
Printing and publications	14,810	-	-	664	15,474	17,829
Postage and shipping	24,433	-	39	199	24,671	25,805
Professional Fees	38,841	7,215	11,387	-	57,443	49,036
Repairs and Maintenance	12,906	2,719	270	-	15,895	22,862
Salaries and Wages	318,187	288,820	-	-	607,007	624,845
Supplies	60,034	9,574	1,593	453	71,654	84,016
	<u>\$ 4,210,472</u>	<u>\$ 601,861</u>	<u>\$ 27,931</u>	<u>\$ 23,215</u>	<u>\$ 4,863,479</u>	<u>\$ 3,686,318</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, 2018 and 2017

	<u>7/31/18</u>	<u>7/31/17</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 67,055	\$ 10,820
Adjustments to reconcile change in net assets to net cash and cash equivalents provided (used) by operating activities:		
Depreciation	103,950	99,215
Investment gains	10,956	32,115
Donated resale inventory	(2,669)	(51,373)
Changes in operating assets and liabilities:		
Accounts receivable and other assets	(12,522)	4,117
Accounts payable	(9,630)	(4,281)
Accrued expenses and other payable	<u>31,141</u>	<u>-</u>
NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES	188,281	90,613
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(65,720)	(54,355)
Proceeds (purchases) of investments, net	<u>283,431</u>	<u>(252,012)</u>
NET CASH AND CASH EQUIVALENTS PROVIDED (USED) BY INVESTING ACTIVITIES	<u>217,711</u>	<u>(306,367)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	405,992	(215,754)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>206,331</u>	<u>422,085</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 612,323</u>	<u>\$ 206,331</u>

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

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017.

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, 2018 and 2017

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 contributions of \$2,981,350 and \$1,784,074 for the years ended July 31, 2018 and 2017, respectively, and in-kind expense of \$2,978,681 and \$1,731,217 for the years ended July 31, 2018 and 2017, 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, 2018 and 2017, respectively, and, therefore, no provision for income taxes has been made.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2018 and 2017

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, 2018 and 2017. 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, 2018 and 2017 was \$583 and \$865, 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 February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The ASU requires the recognition of lease assets and lease liabilities by lessees for those leases currently classified as operating leases and makes certain changes to the accounting for lease expenses. ASU 2016-02 is effective for entities other than public business entities, certain not-for-profit entities, and certain employee benefit plans for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The ASU is to be applied using a modified retrospective approach with optional practical expedients and other special transition provisions. Early adoption is permitted.

In July 2018, the FASB issued ASU 2018-11 *Leases (Topic 842): Targeted Improvements* providing an additional and optional transition method for the adoption of ASU No. 2016-02, which allows the initial application of the guidance at the adoption date with recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Entities that have not yet adopted ASU No. 2016-02 should use the same effective date and transition requirements (as amended) as those in ASU No. 2016-02. Management is currently evaluating the impact of the ASU on the financial statements.

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. The new standard is expected to have an impact on the Organization's financial statements.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2018 and 2017

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

In June 2018, the FASB released ASU 2018-08, Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made. The update provides clarifying accounting guidance for contributions received and contributions made about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments in this update include (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. For contributions, an entity should follow the guidance in Subtopic 958-605, whereas for exchange transactions, an entity should follow other guidance (for example, Topic 606, Revenue from Contracts with Customers). Thus, the accounting may be different depending on the guidance applied. The provisions of ASU 2018-08 are effective for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. Management has not completed the process of evaluating the impact of ASU 2018-08 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, 2018, cash exceeded federally insured limits by \$37,812. At July 31, 2017, 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.

NOTE 3. INVESTMENTS

The Foundation's investments consist of money market mutual funds and brokered certificates of deposit (CD) maturing within one to four years from July 31, 2018. The CD's are held by Royal Bank of Canada and insured by the FDIC.

The following table represents the financial instruments carried at fair value as of July 31, 2018, 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>
Fixed income CD's	\$ 1,318,951	\$ -	\$ -	\$ 1,318,951
Money market mutual funds	<u>557,224</u>	<u>-</u>	<u>-</u>	<u>557,224</u>
	<u>\$ 1,876,175</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,876,175</u>

See accompanying independent auditors' report.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2018 and 2017

NOTE 3. INVESTMENTS (continued)

The following table presents the financial instruments carried at fair value as of July 31, 2017, 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	\$ 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 CD's	1,399,026	-	-	1,399,026
Certificates of deposit 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>

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

	<u>7/31/18</u>	<u>7/31/17</u>
Dividends and interest	\$ 30,517	\$ 35,426
Net realized and unrealized gains (losses)	<u>10,956</u>	<u>(32,115)</u>
	<u>\$ 41,473</u>	<u>\$ 3,323</u>

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at July 31:

	<u>7/31/18</u>	<u>7/31/17</u>
Buildings	\$ 1,689,786	\$ 1,689,786
Equipment, furniture and fixtures	244,472	225,191
Leasehold improvements	124,677	97,388
Automobiles	<u>309,354</u>	<u>290,205</u>
	2,368,289	2,302,570
Less accumulated depreciation	<u>(1,365,973)</u>	<u>(1,262,024)</u>
	1,002,316	1,040,546
Land	<u>416,759</u>	<u>416,759</u>
	<u>\$ 1,419,075</u>	<u>\$ 1,457,305</u>

Depreciation expense for the years ended July 31, 2018 and 2017 was \$103,950 and \$99,215, 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.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
 Years Ended July 31, 2018 and 2017

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>7/31/18</u>	<u>7/31/17</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>

NOTE 7. RESTRICTIONS ON NET ASSETS

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

	<u>7/31/18</u>	<u>7/31/17</u>
Health services	\$ 10,189	\$ 12,058
Other programs	14,888	23,246
Property and equipment	34,363	52,332
Unappropriated endowment earnings	<u>300,224</u>	<u>266,789</u>
	<u>\$ 359,664</u>	<u>\$ 354,425</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.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2018 and 2017

NOTE 8. ENDOWMENT (continued)

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, 2018, 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	\$ -	\$ 300,224	\$ 503,000	\$ 803,224

Changes in endowment net assets for the year ended July 31, 2018, consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 266,789	\$ 503,000	\$ 769,789
Investment income	-	33,435	-	33,435
Endowment net assets, end of year	\$ -	\$ 300,224	\$ 503,000	\$ 803,224

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	\$ 769,789

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	\$ -	\$ 266,789	\$ 503,000	\$ 769,789

See accompanying independent auditors' report.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2018 and 2017

NOTE 8. ENDOWMENT (continued)

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, 2018 and 2017.

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.

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 \$107,600 and \$128,236 for the years ended July 31, 2018 and 2017.

Total rent paid for the thrift shop under noncancelable leases was \$168,226 and \$139,300 for the years ended July 31, 2018 and 2017, respectively.

Minimum future lease payments under these operating lease agreements at July 31, 2018 are due as follows:

Year Ending July 31,	
2019	\$ 187,183
2020	121,452
2021	121,452
2022	<u>70,847</u>
	<u>\$ 500,934</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.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2018 and 2017

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 2017 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 ceased rental payments to the Kutler Family Trust.

In addition, the Kutler Charitable Remainder Trust and the Kutler Family Trust, respectively, owned one-half of the real estate property located at 3260 Production Ave. (the "Property"). The Foundation was named as a beneficiary of both the Kutler Charitable Remainder Trust and the Kutler Family Trust's interest, respectively, in the Property. In July 2018, the Foundation was notified that the Kutler Family Trust was being contested by one of the surviving beneficiaries. The Foundation has retained representation independent of the Trustee's representation. The outcome of the litigation is unknown as of the issuance of these financial statements. On December 28, 2018, the Kutler Charitable Remainder Trust's 50% interest in that real property including all rights, title and interest was transferred to the Foundation.

The Foundation has evaluated subsequent events through May 30, 2019, the date which the financial statements were available to be issued.