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**BROTHER BENNO FOUNDATION, INC.**

FINANCIAL STATEMENTS

July 31, 2015 and 2014

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& COMPANY

**BROTHER BENNO FOUNDATION, INC.**  
**FINANCIAL STATEMENTS**  
July 31, 2015 and 2014

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
and Senior Management of the Brother Benno Foundation, Inc.

We have audited the accompanying financial statements of Brother Benno Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of July 31, 2015 and 2014, and the related statements of activities, cash flows and statements of functional expenses 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.

### **Auditor's 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 audits 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 auditor's 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 Brother Benno Foundation, Inc. as of July 31, 2015 and 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Encinitas, California  
June 2, 2016

**BROTHER BENNO FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
July 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 974,615	\$ 1,087,883
Investments	10,446	527
Accounts receivable and other current assets	<u>5,750</u>	<u>4,898</u>
TOTAL CURRENT ASSETS	990,811	1,093,308
<b>NON-CURRENT ASSETS</b>		
Investments	744,062	784,851
Property and equipment, net of accumulated depreciation	1,535,956	1,536,055
Deposits	<u>13,147</u>	<u>12,512</u>
TOTAL NON-CURRENT ASSETS	<u>2,293,165</u>	<u>2,333,418</u>
TOTAL ASSETS	<u>\$ 3,283,976</u>	<u>\$ 3,426,726</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 39,732	\$ 31,923
Payroll taxes payable	29,972	75,652
Accrued expenses	<u>10,991</u>	<u>24,886</u>
TOTAL CURRENT LIABILITIES	80,695	132,461
<b>REFUNDABLE ADVANCES</b>	<u>508,150</u>	<u>508,150</u>
TOTAL LIABILITIES	588,845	640,611
<b>NET ASSETS</b>		
Unrestricted	1,917,837	1,970,161
Temporarily restricted	274,294	312,954
Permanently restricted	<u>503,000</u>	<u>503,000</u>
TOTAL NET ASSETS	<u>2,695,131</u>	<u>2,786,115</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,283,976</u>	<u>\$ 3,426,726</u>

**BROTHER BENNO FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES**  
Year Ended July 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 2,214,018	\$ 144,562	\$ -	\$ 2,358,580
Thrift shop sales	623,988	-	-	623,988
Rental and other income	155,967	-	-	155,967
Investment return	1,057	(40,789)	-	(39,732)
Net assets released from restrictions, satisfaction of program restrictions	<u>142,433</u>	<u>(142,433)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	3,137,463	(38,660)	-	3,098,803
<b>EXPENSES</b>				
Program services - residential				
Food and health services	2,612,999	-	-	2,612,999
Supporting services				
Thrift shop	529,149	-	-	529,149
Management and general	26,445	-	-	26,445
Fundraising	21,194	-	-	21,194
TOTAL EXPENSES	<u>3,189,787</u>	<u>-</u>	<u>-</u>	<u>3,189,787</u>
INCREASE (DECREASE) IN NET ASSETS	(52,324)	(38,660)	-	(90,984)
NET ASSETS AT BEGINNING OF YEAR	<u>1,970,161</u>	<u>312,954</u>	<u>503,000</u>	<u>2,786,115</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,917,837</u>	<u>\$ 274,294</u>	<u>\$ 503,000</u>	<u>\$ 2,695,131</u>

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

Year Ended July 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 1,873,449	\$ 61,787	\$ -	\$ 1,935,236
Thrift shop sales	610,841	-	-	610,841
Rental and other income	112,297	-	-	112,297
Investment return	8,066	50,470	-	58,536
Net assets released from restrictions, satisfaction of program restrictions	<u>43,054</u>	<u>(43,054)</u>	<u>-</u>	<u>-</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<b>2,647,707</b>	<b>69,203</b>	<b>-</b>	<b>2,716,910</b>
<b>EXPENSES</b>				
Program services - residential, food and health services	2,376,224	-	-	2,376,224
Supporting services				
Thrift shop	423,129	-	-	423,129
Management and general	37,926	-	-	37,926
Fundraising	13,474	-	-	13,474
<b>TOTAL EXPENSES</b>	<u><b>2,850,753</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>2,850,753</b></u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(203,046)</b>	<b>69,203</b>	<b>-</b>	<b>(133,843)</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u><b>2,173,207</b></u>	<u><b>243,751</b></u>	<u><b>503,000</b></u>	<u><b>2,919,958</b></u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u><b>\$ 1,970,161</b></u></u>	<u><u><b>\$ 312,954</b></u></u>	<u><u><b>\$ 503,000</b></u></u>	<u><u><b>\$ 2,786,115</b></u></u>

**BROTHER BENNO FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended July 31, 2015

	Program Services	Supporting Services			Total
		Thrift Shop	Management and General	Fundraising	
Accounting	\$ -	\$ -	\$ 6,138	\$ -	\$ 6,138
Advertising	683	-	-	-	683
Auto expense	50,800	14,238	-	22	65,060
Bank service charges	223	10	1,903	-	2,137
Charitable	117,558	-	-	-	117,558
Charitable gifts - in kind	1,440,765	-	-	-	1,440,765
Contract labor	3,473	-	506	4	3,983
Credit card charges	-	8,685	-	-	8,685
Depreciation	83,695	1,614	369	277	85,955
Drug and alcohol testing	7,634	-	-	-	7,634
Dues and subscriptions	-	-	480	-	480
Equipment rental	5,108	-	174	104	5,385
Food	137,585	-	-	-	137,585
Fundraising	-	-	-	14,094	14,094
Insurance	67,404	21,436	313	230	89,383
Legal	-	-	1,419	-	1,419
Licenses	374	-	170	-	544
Gain on disposition of property	(347)	-	-	-	(347)
Miscellaneous	8,482	(143)	249	-	8,588
Payroll processing fees	11,585	1,516	750	-	13,851
Payroll taxes	21,616	26,336	-	-	47,952
Postage and delivery	25,069	25	109	-	25,204
Printing	14,621	-	-	-	14,621
Professional fees	25,405	440	130	-	25,975
Property taxes	321	-	-	-	321
Rent	170,368	148,160	6,704	3,081	328,313
Repairs	12,027	3,791	120	77	16,015
Security	2,406	-	346	24	2,777
Salaries	232,129	239,920	-	-	472,049
Supplies	71,570	24,683	3,059	1,412	100,723
Telephone	19,658	2,220	1,384	269	23,531
Training	132	-	-	-	132
Travel	-	-	-	60	60
Utilities	82,656	36,216	2,123	1,541	122,536
	<u>\$ 2,612,999</u>	<u>\$ 529,149</u>	<u>\$ 26,445</u>	<u>\$ 21,194</u>	<u>\$ 3,189,787</u>

**BROTHER BENNO FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended July 31, 2014

	Program Services	Supporting Services			Total
		Thrift Shop	Management and General	Fundraising	
Accounting	\$ 1,085	\$ -	\$ 8,805	\$ -	\$ 9,890
Auto	66,502	10,623	6	141	77,272
Bank service charges	-	17	351	-	368
Charitable	125,597	-	-	-	125,597
Charitable gifts - in kind	1,251,736	-	-	-	1,251,736
Contract labor	1,600	-	1,000	1,200	3,800
Credit card charges	-	6,405	-	-	6,405
Depreciation	89,587	1,697	408	-	91,692
Drug and alcohol testing	2,642	-	-	-	2,642
Dues and subscriptions	-	-	458	-	458
Equipment rental	3,858	-	124	93	4,075
Food	164,607	-	-	-	164,607
Fundraising	-	-	-	11,812	11,812
Insurance	48,862	12,370	-	-	61,232
Legal	-	366	11,145	-	11,511
Licenses	250	19	132	-	401
Membership expenses	-	-	155	-	155
Miscellaneous	3,168	-	1,271	-	4,439
Payroll processing fees	10,211	3,610	1,251	-	15,072
Payroll taxes	31,064	22,228	-	-	53,292
Postage and delivery	23,699	-	937	-	24,636
Printing	15,085	-	-	-	15,085
Professional fees	2,860	-	-	-	2,860
Property taxes	321	-	-	-	321
Rent	163,950	154,981	6,524	-	325,455
Repairs	21,015	1,223	359	-	22,597
Security	2,558	43	86	-	2,687
Seminars	855	-	-	-	855
Salaries	175,975	185,120	1,067	-	362,162
Supplies	68,159	14,324	1,043	228	83,754
Telephone	15,562	1,786	724	-	18,072
Training	-	-	10	-	10
Travel	345	-	-	-	345
Utilities	85,071	8,317	2,070	-	95,458
	<u>\$ 2,376,224</u>	<u>\$ 423,129</u>	<u>\$ 37,926</u>	<u>\$ 13,474</u>	<u>\$ 2,850,753</u>



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

Years Ending July 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (90,984)	\$ (133,843)
Adjustments to reconcile decrease in net assets to net cash and cash equivalents provided by operating activities:		
Investment gains (losses)	63,859	(41,586)
Depreciation	85,955	91,692
Gain on disposal of asset	(347)	-
Changes in operating assets and liabilities:		
Accounts receivable and other assets	(1,487)	(2,330)
Accounts payable	7,809	32,660
Accrued expenses and other payable	<u>(59,575)</u>	<u>(8,037)</u>
NET CASH AND CASH EQUIVALENTS PROVIDED (USED) BY OPERATING ACTIVITIES	5,230	(61,444)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(85,509)	(33,542)
Proceeds (purchases) of investments, net	<u>(32,989)</u>	<u>10,483</u>
NET CASH AND CASH EQUIVALENTS USED BY INVESTING ACTIVITIES	<u>(118,498)</u>	<u>(23,059)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(113,268)	(84,503)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,087,883</u>	<u>1,172,386</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR \$	<u><u>974,615</u></u>	<u><u>1,087,883</u></u>

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
July 31, 2015 and 2014

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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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those assumptions and estimates.

Financial Statement Presentation

The accompanying financial statements are prepared on the accrual basis of accounting. 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 Organization 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.

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, 2015 and 2014.

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair value based on quoted market prices in active markets in the statement of financial position. Investment income is included in the change in net assets in the statement of activities. Investment return restricted by donors is reported as increases (decreases) in temporarily restricted net in the reporting period in which the income and gains are recognized.

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
July 31, 2015 and 2014

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

Property and Equipment

Property and equipment are stated at cost, or if donated, at the approximate fair market value at the date of donation. Property and equipment of \$500 or more and an estimated useful life of more than one year are capitalized as assets and are depreciated over their estimated useful lives of five to 40 years using the straight-line method. 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. Amortization of leasehold improvements is included in depreciation expense.

Depreciation expense for the years ended July 31, 2015 and 2014 was \$85,955 and \$91,692, respectively.

Support and Revenue

All contributions are considered available for the Organization's general support unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increase the respective class of net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restricted 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.

Contributed Materials, Food and Services

Contributed materials 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 receives material quantities of donations which are not recorded as inventory. The effects of this departure from generally accepted accounting principles on the Foundation's financial position and changes in net assets have not been determined. The Foundation recognized as income \$1,443,969 and \$1,268,683 for the years ended July 31, 2015 and 2014, respectively, and expense of \$1,440,765 and \$1,251,736 for the years ended July 31, 2015 and 2014, respectively. Many individuals volunteer their time and perform a variety of tasks that assist the Foundation with various programs. 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)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Foundation has 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. The Foundation may be subject to tax on income which is not related to its exempt purpose. For the years ended July 31, 2015 and 2014, no such unrelated business income was reported and, therefore, no provision for income taxes has been made.

The Foundation follows the provisions 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. There are no amounts accrued in the financial statements related to uncertain tax positions for the years ended July 31, 2015 and 2014.

The Foundation files informational and income tax returns in the United States and various state and local jurisdictions. The Organization's Federal income tax and informational returns for the years ended 2014, 2013 and 2012 are subject to examination by the Internal Revenue Service, generally for 3 years after the returns were filed. State and local jurisdictions have statutes of limitation that generally range from 3 to 5 years.

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
July 31, 2015 and 2014

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

Advertising

The Foundation expenses the cost of advertising as incurred.

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.

Fair Value Measurements

The Foundation defines fair value 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. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs. The three levels are defined as follows:

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.

The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. There were no Level 2 or Level 3 inputs for the years ended July 31, 2015 and 2014.

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

Subsequent Events

The Foundation has evaluated subsequent events through June 2, 2016 which is the date the financial statements were available to be issued.

NOTE 2. CONCENTRATION OF CREDIT RISK

The Foundation maintains cash balances at financial institutions that may at times exceed the federally insured limits. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
July 31, 2015 and 2014

NOTE 3. INVESTMENTS

Investments are carried at fair value based on quoted prices in active markets (all Level 1 measurements) and consist primarily of equity securities and certificates of deposit.

The following table presents the financial instruments carried at fair value as of July 31, 2015, 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	\$ 65,640	\$ -	\$ -	\$ 65,640
Energy	163,990	-	-	163,990
Manufacturing	27,880	-	-	27,880
Natural gas	79,500	-	-	79,500
Technology	46,790	-	-	46,790
Chemical	1,092	-	-	1,092
Health Care	9,863	-	-	9,863
Bond Fund	108,511	-	-	108,511
Certificate of deposits and money market accounts (FDIC)	<u>251,242</u>	<u>-</u>	<u>-</u>	<u>251,242</u>
	<u>\$ 754,508</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 754,508</u>

The following table presents the financial instruments carried at fair value as of July 31, 2014, 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	\$ 50,620	\$ -	\$ -	\$ 50,620
Energy	123,750	-	-	123,750
Manufacturing	32,155	-	-	32,155
Natural gas	40,555	-	-	40,555
Technology	50,420	-	-	50,420
Bond Fund	160,707	-	-	160,707
Certificate of deposits and money market accounts (FDIC)	<u>327,171</u>	<u>-</u>	<u>-</u>	<u>327,171</u>
	<u>\$ 785,378</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 785,378</u>

Investment return consists of the following at July 31:

	<u>2015</u>	<u>2014</u>
Dividends and interest	\$ 24,127	\$ 16,950
Net realized and unrealized gains (losses)	<u>(63,859)</u>	<u>41,586</u>
	<u>\$ (39,732)</u>	<u>\$ 58,536</u>

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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NOTE 4. PROPERTY AND EQUIPMENT

The property and equipment consists of the following at July 31:

	2015	2014
Buildings	\$ 1,689,786	\$ 1,689,786
Equipment, furniture and fixtures	134,043	133,206
Leasehold improvements	72,816	72,051
Automobiles	298,455	244,169
	<u>2,198,100</u>	<u>2,139,212</u>
Less accumulated depreciation	(1,078,903)	(1,019,916)
	1,119,197	1,119,296
Land	416,759	416,759
	<u>\$ 1,535,956</u>	<u>\$ 1,536,055</u>

NOTE 5. 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 consists of the following at July 31:

	2015	2014
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 6. RESTRICTIONS ON NET ASSETS

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

	2015	2014
Health services	\$ 7,629	\$ 7,493
Other programs	5,980	23,610
Property and equipment	19,607	-
Unappropriated endowment earnings	<u>241,078</u>	<u>281,851</u>
	<u>\$ 274,294</u>	<u>\$ 312,954</u>

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
 July 31, 2015 and 2014

NOTE 7. 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, 2015, 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	\$ -	\$ 241,062	\$ 503,000	\$ 744,062

Changes in endowment net assets for the year ended July 31, 2015, consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 281,851	\$ 503,000	\$ 784,511
Investment income	-	(40,789)	-	(40,789)
Endowment net assets, end of year	\$ -	\$ 241,062	\$ 503,000	\$ 744,062

At July 31, 2014, 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	\$ -	\$ 281,851	\$ 503,000	\$ 784,851

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NOTE 7. ENDOWMENT (continued)

Changes in endowment net assets for the year ended July 31, 2014, consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 231,381	\$ 503,000	\$ 734,381
Investment income	-	50,470	-	50,470
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 281,851</u>	<u>\$ 503,000</u>	<u>\$ 784,851</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, 2015 and 2014.

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 8. LEASE COMMITMENTS AND RELATED PARTY TRANSACTIONS

The Foundation leases several properties, including its operations center, warehouse, thrift shop, and a lay minister's 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 lay minister's residence. Total rent paid to the executive director was \$128,236 and \$124,042 for the years ended July 31, 2015 and 2014. Total rent paid for the thrift shop was \$144,850 and 126,144 for the years ended July 31, 2015 and 2014.

Future minimum lease payments under these operating leases at July 31, 2015 are due as follows:

<u>Year Ending July 31,</u>	
2016	\$ 159,714
2017	161,532
2018	<u>96,672</u>
	<u>\$ 417,918</u>



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**NOTE 9. FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on time and usage.

**NOTE 10. 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.

Certain transactions involving payroll tax liabilities were discovered during the fiscal year ending 2013 which may require the Foundation to pay penalties. Management made a provision to accrue for the estimated payroll tax liability. The penalties associated with the payroll tax liability are not estimable therefore the no liability been recorded.

As of the year ended July 31, 2015, management is of the opinion that they are no longer liable for the accrued payroll tax liability attributable to 2011. The accrued liability write off in the amount of \$46,000 has been recognized as part of other income in the statement of activities.

**NOTE 11. RECLASSIFICATIONS**

Certain items in the 2014 financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.