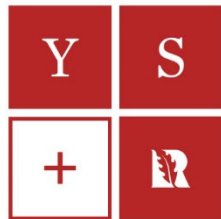

BROTHER BENNO FOUNDATION, INC.

FINANCIAL STATEMENTS

July 31, 2019 and 2018

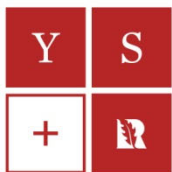


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BROTHER BENNO FOUNDATION, INC.
FINANCIAL STATEMENTS
July 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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.



Emphasis of a Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, as of August 1, 2018, the Foundation adopted Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, methods used to allocate costs, and direction for consistency about information provided about expenses and investment return. The adoption of the standard resulted in additional footnote disclosures and changes to the classification of net assets and disclosures related to net assets. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, as of August 1, 2018, the Foundation also adopted ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10: Recognition and Measurement of Financial Assets and Financial Liabilities, and subsequently issued related ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10), ASU 2018-08, Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made and ASU No. 2018-13, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The adoption of the standards did not have an impact on the financial statements. Our opinion is not modified with respect to this matter.

YSR CPA Group, P.C.

Encinitas, California
December 8, 2020

BROTHER BENNO FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
July 31, 2019 and 2018

	<u>7/31/19</u>	<u>7/31/18</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 489,841	\$ 612,323
Investments, current	467,175	443,754
Accounts receivable and other current assets	9,989	10,709
Inventory	<u>54,521</u>	<u>54,042</u>
TOTAL CURRENT ASSETS	1,021,526	1,120,828
OTHER NON-CURRENT ASSETS		
Investments, non current	1,146,894	929,421
Investments, permanently restricted by donor endowment	503,000	503,000
Property and equipment, net of accumulated depreciation	2,297,225	1,419,075
Deposits	<u>17,512</u>	<u>17,512</u>
TOTAL NON-CURRENT ASSETS	<u>3,964,631</u>	<u>2,869,008</u>
TOTAL ASSETS \$	<u><u>4,986,157</u></u>	<u><u>3,989,836</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 18,992	\$ 5,365
Accrued expenses	<u>44,506</u>	<u>40,159</u>
TOTAL CURRENT LIABILITIES	63,498	45,524
REFUNDABLE ADVANCES	<u>508,150</u>	<u>508,150</u>
TOTAL LIABILITIES \$	<u><u>571,648</u></u>	<u><u>553,674</u></u>
COMMITMENTS & CONTINGENCIES		
NET ASSETS		
Without donor restrictions	3,523,420	2,573,498
With donor restrictions	<u>891,089</u>	<u>862,664</u>
TOTAL NET ASSETS	<u>4,414,509</u>	<u>3,436,162</u>
TOTAL LIABILITIES AND NET ASSETS \$	<u><u>4,986,157</u></u>	<u><u>3,989,836</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, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 900,843	\$ 56,988	\$ 957,831
In-kind contributions	3,425,288	-	3,425,288
Thrift shop sales	634,692	-	634,692
Rental and other income	215,647	-	215,647
Investment return	38,832	12,162	50,994
Gain on disposal of fixed assets	1,000		1,000
Net assets released from restrictions, satisfaction of program restrictions	<u>40,725</u>	<u>(40,725)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	5,257,027	28,425	5,285,452
EXPENSES			
Program services			
Poor & Homeless Services	3,251,864	-	3,251,864
Case Management	97,667	-	97,667
Recovery Program	264,274	-	264,274
Thrift shop	601,142	-	601,142
Supporting services			
Management and general	69,562	-	69,562
Fundraising	<u>22,596</u>	<u>-</u>	<u>22,596</u>
TOTAL EXPENSES	4,307,105	-	4,307,105
INCREASE IN NET ASSETS	949,922	28,425	978,347
NET ASSETS AT BEGINNING OF YEAR	<u>2,573,498</u>	<u>862,664</u>	<u>3,436,162</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,523,420</u>	<u>\$ 891,089</u>	<u>\$ 4,414,509</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>Without Donor Restrictions</u>	<u>With Donor Restrictions</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>
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>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>857,425</u>	<u>3,369,107</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,573,498</u>	<u>\$ 862,664</u>	<u>\$ 3,436,162</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, 2019 (with summarized financial information for 2018)

	Program Services				Supporting Services		2019 Total Expenses	2018 Total Expenses
	Poor & Homeless Services	Case Management	Recovery Program	Thrift Shop	Management and General	Fundraising		
Advertising	\$ -	\$ -	\$ -	\$ 734	\$ -	\$ -	\$ 734	\$ 583
Auto	36,380	-	9,146	13,614	-	-	59,140	55,809
Charitable In-Kind	2,463,834	-	-	-	-	975	2,464,809	2,978,681
Depreciation	44,001	1,743	60,461	1,945	1,323	992	110,465	103,950
Direct Program Expense	64,337	-	2,549	-	-	-	66,886	67,386
Equipment Rental	5,965	247	412	743	169	124	7,660	9,773
Fundraising	-	-	-	-	-	11,621	11,621	12,818
Grants and Other Assistance	33,760	79,389	27,923	-	-	-	141,072	163,270
Insurance	27,547	898	11,946	21,874	3,471	277	66,013	79,077
Miscellaneous	2,052	-	574	2,147	4,434	2,441	11,648	12,563
Occupancy	167,571	4,954	62,199	186,171	8,391	2,477	431,763	462,081
Office Expenses	3,331	-	150	21,708	527	765	26,481	64,357
Payroll Taxes	23,029	897	4,143	27,670	251	-	55,990	60,987
Printing and publications	22,151	-	-	-	163	162	22,476	15,474
Postage and shipping	17,291	-	215	-	16	2,434	19,956	24,671
Professional Fees	12,515	309	27,502	10,770	47,769	-	98,865	57,443
Repairs and Maintenance	10,650	-	5,130	1,163	-	-	16,943	15,895
Salaries and Wages	255,929	8,575	46,007	300,591	1,965	-	613,067	607,007
Supplies	61,455	655	5,917	11,467	1,083	328	80,905	71,654
Travel	66	-	-	545	-	-	611	-
	<u>\$ 3,251,864</u>	<u>\$ 97,667</u>	<u>\$ 264,274</u>	<u>\$ 601,142</u>	<u>\$ 69,562</u>	<u>\$ 22,596</u>	<u>\$ 4,307,105</u>	<u>\$ 4,863,479</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, 2019 and 2018

	<u>7/31/19</u>	<u>7/31/18</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 978,347	\$ 67,055
Adjustments to reconcile change in net assets to net cash and cash equivalents provided (used) by operating activities:		
Depreciation	110,465	103,950
Contributed building and land	(960,000)	-
Contributed securities	(11,121)	-
Proceeds from sale of contributed securities	11,199	-
Gain on sale of contributed securities	(78)	-
Investment (gain) loss	(13,904)	10,956
Donated resale inventory	(479)	(2,669)
Changes in operating assets and liabilities:		
Accounts receivable and other assets	720	(12,522)
Accounts payable	13,627	(9,630)
Accrued expenses and other payable	4,347	31,141
NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES	133,123	188,281
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(28,615)	(65,720)
Proceeds (purchases) of investments, net	<u>(226,990)</u>	<u>283,431</u>
NET CASH AND CASH EQUIVALENTS PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(255,605)</u>	<u>217,711</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(122,482)	405,992
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>612,323</u>	<u>206,331</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u><u>489,841</u></u>	\$ <u><u>612,323</u></u>

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

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2019 and 2018

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Brother Benno Foundation, Inc. (the "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, private and government grants.

Financial Statement Presentation

The financial statements of the Foundation have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified as follows:

- *Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. The Foundation's board may designate assets without restrictions for specific operational purposes from time to time.
- *Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions may be perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Measure of operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Foundation's ongoing services and interest earned. Nonoperating activities are limited to other activities considered to be of a more unusual or nonrecurring nature.

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.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2019 and 2018

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

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. 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.

New Accounting Pronouncements Recently Adopted

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, and subsequently issued related ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10). These standards amend certain aspects of accounting and disclosure requirements for financial instruments, including the requirement that equity investments with readily determinable fair values are to be measured at fair value with any changes in fair value recognized in the statement of changes in net assets. The Foundation adopted this standard on August 1, 2018 using the prospective method for equity securities without readily determinable fair values. There was no impact to the statements of financial position upon adoption.

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 (within the scope of Topic 606, Revenue from Contracts with Customers) 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.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2019 and 2018

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

New Accounting Pronouncements Recently Adopted (continued)

The Foundation adopted this standard on August 1, 2018 on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of August 1, 2018. There was no effect of adopting the new accounting principles on contributions in 2019.

In August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and the reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for all entities for interim and annual reporting periods beginning after December 31, 2019. Early adoption is permitted. The Foundation adopted this standard on August 1, 2018 on a retrospective basis in 2019. As ASU No. 2018-13 only revises disclosure requirements, it did not have an impact on the Foundation's financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU introduced a comprehensive, principle-based framework for recognizing revenue, and, when effective, will supersede the requirements in FASB ASC 605, Revenue Recognition, and virtually all industry-specific revenue recognition guidance in the FASB ASC. The ASU is intended to improve GAAP by providing a framework to address revenue recognition issues, creating more consistency and comparability of revenue recognition practices across entities and industries, and improving the usefulness of information provided to financial statement users through more robust disclosure requirements. The ASU is effective for fiscal years beginning after December 15, 2018.

Subsequent to the issuance of ASU 2014-09, the FASB issued a number of ASUs clarifying certain matters in ASU 2014-09:

ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date to defer the effective date of ASU No. 2014-09 for one year to allow entities additional time to implement systems, gather data and resolve implementation questions.

ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing provides more detailed guidance, including additional implementation guidance and examples in the following key areas: 1) identifying performance obligations and 2) licenses of intellectual property. The ASU becomes effective concurrently with ASU 2014-09.

ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients clarifies the following key areas: (1) assessing collectability, (2) presenting sales taxes and other similar taxes collected from customers, (3) noncash consideration, (4) contract modifications at transition, (5) completed contracts at transition, and (6) disclosing the accounting change in the period of adoption. The effective date and transition requirements for ASU 2016-12 are the same as the effective date and transition requirements of Topic 606.

On June 3, 2020, the FASB issued ASU 2020-05, which deferred the effective dates of the Board's standards on revenue (ASU 2014-09 Topic 606) to give immediate relief to certain entities as a result of the widespread adverse economic effects and business disruptions caused by the coronavirus disease 2019 (COVID-19) pandemic. ASU 2020-05 permits private entities that have not yet issued their financial statements or made financial statements available for issuance as of June 3, 2020, to adopt ASC 606 for annual reporting periods beginning after December 15, 2019. The Foundation will account for revenue (exchange transactions) in accordance with ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) upon adoption. Management has not completed the process of evaluating the impact of ASU 2014-09 on its financial statements.

See accompanying independent auditors' report.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2019 and 2018

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

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, 2019 and 2018.

Investments

Investments are carried at fair market value in the statement 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 net assets without donor restriction unless restricted by donor or law. Investment return on net assets with donor restriction is reported as an increase in net assets without donor restriction if the asset restriction expires in the reporting period in which the income is recognized. All other restricted investment return is reported as an increase in net assets with donor restriction, depending on the nature of the restriction.

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 restricted in perpetuity as subject to time restriction until appropriated for expenditure.

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 net assets without donor restriction 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 net assets with donor restriction. 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 net assets with donor restrictions to net assets without donor restriction at that time.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets of five to forty years. Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of property, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale of any resultant gain or loss is credited or charged to earnings.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2019 and 2018

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

Contributions and Support

Contributions and grants received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed Materials and Food

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 \$2,465,288 and \$2,981,350 for the years ended July 31, 2019 and 2018, respectively, and in-kind expense of \$2,464,809 and \$2,978,681 for the years ended July 31, 2019 and 2018, respectively, in the statement of activities. Items not used for sale in the thrift shop, 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.

Donated property

Donated property and land from the Foundation's former executive director, with an estimated fair value of \$960,000 for the year July 31, 2019, has been included on the statement of activities.

Contributed Services

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.

Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, payroll taxes and related insurance, which are allocated on the basis of estimates of time and effort, as well as occupancy and depreciation, which is allocated on a square-footage basis.

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 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. 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, 2019 and 2018, respectively, and, therefore, no provision for income taxes has been made.

See accompanying independent auditors' report.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2019 and 2018

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

Income Taxes

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, 2019 and 2018. Management believes the Foundation is no longer subject to income tax examinations by applicable taxing jurisdictions for the years prior to July 31, 2014.

Advertising

The Foundation expenses the cost of advertising as incurred. Advertising expense for the years ended July 31, 2019 and 2018 was \$734 and \$583, respectively.

Change in Accounting Principle

Effective August 1, 2018, the Foundation adopted Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. ASU 2016-14 is effective for financial statements issued for fiscal years beginning after December 15, 2017.

Implementation of ASU 2016-14 required reclassification or restatement of any opening balances related to the period presented. The Foundation’s net assets previously reported as temporarily restricted and permanently restricted in the statement of activities are now reported as net assets with donor restrictions. Likewise, the Foundation’s net assets previously reported as unrestricted are now reported as net assets without donor restrictions.

Net assets have been reclassified due to the adoption of ASU 2016-14 as of July 31, 2019, as follows:

Net Asset Classification July 31, 2018	ASU 2016-14 Classifications		
	Without Donor Restriction	With Donor Restriction	Total Net Assets
Unrestricted	\$ 2,573,498	\$ -	\$ 2,573,498
Temporarily Restricted	-	359,664	359,664
Permanently Restricted	-	503,000	503,000
Net asset as reported after adoption of ASU 2016-14	\$ <u>2,573,498</u>	\$ <u>862,664</u>	\$ <u>3,436,162</u>

See accompanying independent auditors’ report.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2019 and 2018

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

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the financial statements are available to be issued.

NOTE 2. AVAILABILITY AND LIQUIDITY

The Foundation regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. The following represents the Foundation's financial assets at July 31, 2019, reduced by amounts not available for general use:

Financial assets at year-end:	<u>7/31/19</u>
Cash	\$ 489,841
Investments	<u>2,117,069</u>
Total financial assets	2,606,910
Less amounts not available to be used within one year:	
Investments restricted by donors and held in endowment funds	<u>815,538</u>
Financial assets available to meet general expenditures over the next twelve months	\$ <u><u>1,791,372</u></u>

The Foundation has various sources of liquidity at its disposal, including cash and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of the Foundation throughout the year. As a result, management is aware of the cyclical nature of the Foundation's cash flow related to the Foundation's various funding sources and is therefore able to ensure there is cash available to meet current liquidity needs.

To help manage unanticipated liquidity needs, the Foundation can liquidate investments without donor restrictions totaling approximately \$1,300,000 at any time. Additionally, the Foundation can draw from accumulated earnings totaling \$312,386 from the endowment funds.

NOTE 3. 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, 2019, no balance exceeded FDIC limit of \$250,000. At July 31, 2018, cash exceeded federally insured limits by \$37,812.

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.

See accompanying independent auditors' report.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2019 and 2018

NOTE 4. 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, 2019. The CD's are held by Royal Bank of Canada and Edwards Jones and insured by the FDIC.

The following table represents the financial instruments carried at fair value as of July 31, 2019, 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	\$ 1,974,066	\$ -	\$ -	\$ 1,974,066
Money market funds	<u>143,003</u>	<u>-</u>	<u>-</u>	<u>143,003</u>
	<u>\$ 2,117,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,117,069</u>

The following table presents the financial instruments carried at fair value as of July 31, 2018, 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>
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>

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

	<u>7/31/19</u>	<u>7/31/18</u>
Dividends and interest	\$ 37,012	\$ 30,517
Net realized and unrealized gains	<u>13,982</u>	<u>10,956</u>
	<u>\$ 50,994</u>	<u>\$ 41,473</u>

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at July 31:

	<u>7/31/19</u>	<u>7/31/18</u>
Buildings	\$ 2,169,786	\$ 1,689,786
Equipment, furniture and fixtures	268,176	244,472
Leasehold improvements	124,677	124,677
Automobiles	<u>309,765</u>	<u>309,354</u>
	2,872,404	2,368,289
Less accumulated depreciation	<u>(1,471,938)</u>	<u>(1,365,973)</u>
	1,400,466	1,002,316
Land	<u>896,759</u>	<u>416,759</u>
	<u>\$ 2,297,225</u>	<u>\$ 1,419,075</u>

Depreciation expense for the years ended July 31, 2019 and 2018 was \$110,465 and \$103,950, respectively.

See accompanying independent auditors' report.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
 Years Ended July 31, 2019 and 2018

NOTE 6. 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 7. 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>7/31/19</u>	<u>7/31/18</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 8. RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions

As of July 31, 2019 and 2018, respectively, net assets with donor restrictions were available for the following:

	<u>7/31/19</u>	<u>7/31/18</u>
Purpose restricted:		
Health services	\$ 10,101	\$ 10,189
Property and equipment	53,209	14,888
Other programs	12,241	34,363
Time restricted:		
Available for appropriation from endowment funds	312,538	300,224
Permanent endowments:		
Corpus value	<u>503,000</u>	<u>503,000</u>
Total net assets with donor restriction	<u>\$ 891,089</u>	<u>\$ 862,664</u>

Net assets released from net assets with donor restrictions are as follows:

	<u>7/31/19</u>	<u>7/31/18</u>
Satisfaction of purpose restrictions	\$ 40,725	\$ 97,894

See accompanying independent auditors' report.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
 Years Ended July 31, 2019 and 2018

NOTE 9. 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, 2019, the endowment net assets composition by type of fund consists of the following:

	<u>With Donor Restriction</u>
Donor-restricted endowment funds	\$ <u>815,538</u>

Changes in endowment net assets for the year ended July 31, 2019, consist of the following:

	<u>With Donor Restriction</u>
Endowment net assets, beginning of year	\$ 803,224
Contributions	152
Investment income	<u>12,162</u>
Endowment net assets, end of year	\$ <u>815,538</u>

At July 31, 2018, the endowment net assets composition by type of fund consists of the following:

	<u>With Donor Restriction</u>
Donor-restricted endowment funds	\$ <u>803,224</u>

See accompanying independent auditors' report.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
 Years Ended July 31, 2019 and 2018

NOTE 9. ENDOWMENT (continued)

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

	<u>With Donor Restriction</u>
Endowment net assets, beginning of year	\$ 769,789
Investment income	<u>33,435</u>
Endowment net assets, end of year	<u>\$ 803,224</u>

The following reflects the Foundation's endowment net asset composition by fund type as of July 31, 2019:

Original donor-restricted gift amounts required to be maintained in perpetuity:

Total original gift amounts	\$ 503,000
Portion of perpetual endowment funds subject to a time restriction under UPMIFA without purpose restriction	<u>312,538</u>
Total endowment funds classified as net assets with donor restrictions	<u>\$ 815,538</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, 2019 and 2018.

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 10. 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 two trusts held by the former executive director for the operations center and the employees' residence (see Note 14 regarding the former executive director). Total rent paid to the trusts was \$29,493 and \$107,600 for the years ended July 31, 2019 and 2018.

See accompanying independent auditors' report.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2019 and 2018

NOTE 10. LEASE COMMITMENTS AND RELATED PARTY TRANSACTIONS (continued)

Total rent paid for the thrift shop under noncancelable leases was \$172,363 and \$168,226 for the years ended July 31, 2019 and 2018, respectively.

Minimum future lease payments under these operating lease agreements at July 31, 2019 are due as follows:

Year Ending July 31,	
2020	\$ 121,452
2021	121,452
2022	<u>70,847</u>
	<u>\$ 313,751</u>

NOTE 11. 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 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 2018 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

The Foundation has evaluated subsequent events through December 8, 2020, the date which the financial statements were available to be issued.

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.

See accompanying independent auditors' report.

BROTHER BENNO FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended July 31, 2019 and 2018

NOTE 14. SUBSEQUENT EVENTS (continued)

Operations may be adversely affected by health epidemics including the recent coronavirus outbreak.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to a number of other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the U.S., including California, where the Foundation is located, have declared a state of emergency.

Potential impacts to the Foundation include disruptions or restrictions on its employees' ability to work and the ability to provide certain integrative services. COVID-19 could adversely affect the economy and financial markets, resulting in an economic downturn that could affect donors and contributors, and impact the Foundation's operating results. Any of the foregoing could harm the Foundation, and it cannot anticipate all of the ways in which health epidemics such as COVID-19 could adversely impact its operations. The Foundation may incur expenses or delays relating to such events outside of its control, which could have a material adverse impact on its operating results and financial condition. Although the Foundation is continuing to monitor and assess the effects of the COVID-19 pandemic on its operations, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change.