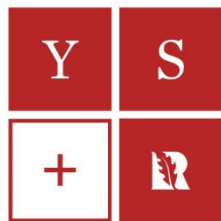

BROTHER BENNO FOUNDATION, INC.

FINANCIAL STATEMENTS

July 31, 2020 and 2019



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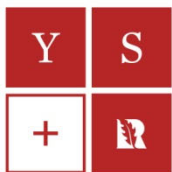
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BROTHER BENNO FOUNDATION, INC.
FINANCIAL STATEMENTS
July 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

YSR CPA Group, P.C.

Encinitas, California
August 24, 2021



BROTHER BENNO FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
July 31, 2020 and 2019

	<u>7/31/20</u>	<u>7/31/19</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 573,280	\$ 489,841
Investments, current	496,035	467,175
Accounts receivable and other current assets	16,933	9,989
Grants receivable	85,000	-
Inventory	<u>35,570</u>	<u>54,521</u>
TOTAL CURRENT ASSETS	1,206,818	1,021,526
OTHER NON-CURRENT ASSETS		
Investments, non current	1,059,377	1,146,894
Investments, permanently restricted by donor endowment	503,000	503,000
Property and equipment, net of accumulated depreciation	2,211,347	2,297,225
Deposits	<u>12,512</u>	<u>17,512</u>
TOTAL NON-CURRENT ASSETS	<u>3,786,236</u>	<u>3,964,631</u>
TOTAL ASSETS \$	<u><u>4,993,054</u></u>	<u><u>4,986,157</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 5,664	\$ 18,992
Accrued expenses	<u>37,082</u>	<u>44,506</u>
TOTAL CURRENT LIABILITIES	42,746	63,498
REFUNDABLE ADVANCES	<u>508,150</u>	<u>508,150</u>
TOTAL LIABILITIES \$	<u><u>550,896</u></u>	<u><u>571,648</u></u>
COMMITMENTS & CONTINGENCIES		
NET ASSETS		
Without donor restrictions	3,472,501	3,523,420
With donor restrictions	<u>969,657</u>	<u>891,089</u>
TOTAL NET ASSETS	<u>4,442,158</u>	<u>4,414,509</u>
TOTAL LIABILITIES AND NET ASSETS \$	<u><u>4,993,054</u></u>	<u><u>4,986,157</u></u>

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

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

For the Year Ended July 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 949,253	\$ 118,189	\$ 1,067,442
In-kind contributions	2,346,476	-	2,346,476
Thrift shop sales	427,984	-	427,984
Rental and other income	149,147	-	149,147
Investment return	47,408	30,913	78,321
Loss on disposal of fixed assets	(732)	-	(732)
Other income	1,000	-	1,000
Net assets released from restrictions, satisfaction of program restrictions	<u>70,534</u>	<u>(70,534)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	3,991,070	78,568	4,069,638
EXPENSES			
Program services			
Poor & Homeless Services	3,118,852	-	3,118,852
Case Management	71,551	-	71,551
Recovery Program	245,558	-	245,558
Thrift Shop	512,574	-	512,574
Supporting services			
Management and general	79,015	-	79,015
Fundraising	<u>14,439</u>	<u>-</u>	<u>14,439</u>
TOTAL EXPENSES	4,041,989	-	4,041,989
INCREASE (DECREASE) IN NET ASSETS	(50,919)	78,568	27,649
NET ASSETS AT BEGINNING OF YEAR	<u>3,523,420</u>	<u>891,089</u>	<u>4,414,509</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 3,472,501</u></u>	<u><u>\$ 969,657</u></u>	<u><u>\$ 4,442,158</u></u>

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

BROTHER BENNO FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended July 31, 2020

	Program Services				Supporting Services		2020 Total Expenses
	Poor & Homeless Services	Case Management	Recovery Program	Thrift Shop	Management and General	Fundraising	
Advertising	\$ -	\$ -	\$ -	\$ 671	\$ -	\$ -	\$ 671
Auto	28,888	-	6,257	9,428	-	-	44,573
Charitable In-Kind	2,352,448	-	-	-	-	3,150	2,355,598
Depreciation	51,802	738	58,543	2,595	1,327	369	115,374
Direct Program Expense	75,030	-	1,466	-	-	-	76,496
Equipment Rental	4,630	179	1,040	84	325	106	6,364
Fundraising	-	-	-	-	-	5,140	5,140
Grants and Other Assistance	26,962	65,582	28,140	-	-	-	120,684
Insurance	34,085	-	11,991	27,774	3,561	305	77,716
Miscellaneous	184	-	-	7,098	2,016	2,185	11,483
Occupancy	137,055	3,756	45,388	186,712	6,647	2,087	381,645
Office Expenses	24,998	1,077	12,467	10,495	3,692	674	53,403
Payroll Taxes	23,491	-	3,884	22,856	477	-	50,708
Postage and shipping	19,559	-	-	371	-	241	20,171
Printing and publications	16,950	-	-	-	-	-	16,950
Professional Fees	7,970	-	30,750	2,101	54,581	-	95,402
Repairs and Maintenance	13,500	-	2,287	2,591	569	-	18,947
Salaries and Wages	245,253	-	39,150	232,121	4,515	-	521,039
Supplies	55,915	219	4,195	7,116	1,305	182	68,932
Travel	132	-	-	561	-	-	693
	<u>\$ 3,118,852</u>	<u>\$ 71,551</u>	<u>\$ 245,558</u>	<u>\$ 512,574</u>	<u>\$ 79,015</u>	<u>\$ 14,439</u>	<u>\$ 4,041,989</u>

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

BROTHER BENNO FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended July 31, 2019

	Program Services				Supporting Services		Total Expenses
	Poor & Homeless Services	Case Management	Recovery Program	Thrift Shop	Management and General	Fundraising	
Advertising	\$ -	\$ -	\$ -	\$ 734	\$ -	\$ -	\$ 734
Auto	36,380	-	9,146	13,614	-	-	59,140
Charitable In-Kind	2,463,834	-	-	-	-	975	2,464,809
Depreciation	44,001	1,743	60,461	1,945	1,323	992	110,465
Direct Program Expense	64,337	-	2,549	-	-	-	66,886
Equipment Rental	5,965	247	412	743	169	124	7,660
Fundraising	-	-	-	-	-	11,621	11,621
Grants and Other Assistance	33,760	79,389	27,923	-	-	-	141,072
Insurance	27,547	898	11,946	21,874	3,471	277	66,013
Miscellaneous	2,052	-	574	2,147	4,434	2,441	11,648
Occupancy	167,571	4,954	62,199	186,171	8,391	2,477	431,763
Office Expenses	3,331	-	150	21,708	527	765	26,481
Payroll Taxes	23,029	897	4,143	27,670	251	-	55,990
Postage and shipping	17,291	-	215	-	16	2,434	19,956
Printing and publications	22,151	-	-	-	163	162	22,476
Professional Fees	12,515	309	27,502	10,770	47,769	-	98,865
Repairs and Maintenance	10,650	-	5,130	1,163	-	-	16,943
Salaries and Wages	255,929	8,575	46,007	300,591	1,965	-	613,067
Supplies	61,455	655	5,917	11,467	1,083	328	80,905
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>

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

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

For the Years Ended July 31, 2020 and 2019

	<u>7/31/20</u>	<u>7/31/19</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 27,649	\$ 978,347
Adjustments to reconcile change in net assets to net cash and cash equivalents provided (used) by operating activities:		
Depreciation	115,374	110,465
Loss on disposal of fixed assets	732	
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	(29,177)	(13,904)
Donated resale inventory	18,951	(479)
Changes in operating assets and liabilities:		
Accounts receivable and other assets	(6,944)	720
Grants receivables	(85,000)	-
Deposits	5,000	-
Accounts payable	(13,328)	13,627
Accrued expenses and other payable	(7,424)	4,347
NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES	25,833	133,123
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(30,228)	(28,615)
Proceeds (purchases) of investments, net	87,834	(226,990)
NET CASH AND CASH EQUIVALENTS PROVIDED (USED) BY INVESTING ACTIVITIES	57,606	(255,605)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	83,439	(122,482)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	489,841	612,323
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 573,280	\$ 489,841

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

BROTHER BENNO FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2020 and 2019

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.

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.

BROTHER BENNO FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2020 and 2019

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

Fair Value Measurements (continued)

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.

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.

BROTHER BENNO FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2020 and 2019

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

Recent Accounting Pronouncements Not Yet Adopted (continued)

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.

In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. This ASU is meant to improve generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this Update address certain concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in an NFP's programs and other activities. An NFP will be required to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets.

The amendments address presentation and disclosure of contributed nonfinancial assets. The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. An NFP will be required to disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets and additional information for each category of contributed nonfinancial assets. The amendments in this ASU are effective for annual periods beginning after June 15, 2021 and interim periods within annual periods beginning after June 15, 2022 and should be applied on a retrospective basis. Early adoption is permitted.

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, 2020 and 2019.

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.

BROTHER BENNO FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2020 and 2019

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

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 \$1,000 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.

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 \$2,346,476 and \$2,465,288 for the years ended July 31, 2020 and 2019, respectively, and in-kind expense of \$2,355,598 and \$2,464,809 for the years ended July 31, 2020 and 2019, 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.

BROTHER BENNO FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2020 and 2019

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

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, 2020 and 2019, respectively, and, therefore, no provision for income taxes has been made.

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, 2020 and 2019. Management believes the Foundation is no longer subject to income tax examinations by applicable taxing jurisdictions for the years prior to July 31, 2016.

Advertising

The Foundation expenses the cost of advertising as incurred. Advertising expense for the years ended July 31, 2020 and 2019 was \$671 and \$734, respectively.

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.

BROTHER BENNO FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
 Years Ended July 31, 2020 and 2019

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, reduced by amounts not available for general use, are as follows at July 31:

Financial assets at year-end:	<u>7/31/20</u>	<u>7/31/19</u>
Cash	\$ 573,280	\$ 489,841
Investments	<u>2,058,412</u>	<u>2,117,069</u>
Total financial assets	<u>2,631,692</u>	<u>2,606,910</u>
Less amounts not available to be used within one year:		
Investments restricted by donors and held in endowment funds	<u>846,451</u>	<u>815,538</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,785,241</u>	<u>\$ 1,791,372</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 \$1,211,961 at any time. Additionally, the Foundation can draw from accumulated earnings totaling \$343,451 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) and the National Credit Union Association (NCUA) up to a limit of \$250,000 per depositor, respectively. At July 31, 2020 and 2019, no balance exceeded either the FDIC or NCUA 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 4. FAIR VALUE MEASUREMENTS

The Foundation's investments consist of money market mutual funds and brokered certificates of deposit (CD) maturing within one to two years from July 31, 2020 and are stated at fair value based on quoted prices in active markets (all Level 1 measurements). The CD's are held by Royal Bank of Canada and Edwards Jones and insured by the FDIC.

BROTHER BENNO FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2020 and 2019

NOTE 4. FAIR VALUE MEASUREMENTS (continued)

The following table represents the financial instruments carried at fair value as of July 31:

	7/31/20			7/31/19
	Cost	Fair Value	Unrealized Appreciation (Depreciation)	Fair Value
Fixed income CD's	\$ 1,189,890	\$ 1,211,961	\$ 22,071	\$ 1,974,066
Money market funds	380,595	380,595	-	143,003
	<u>\$ 1,570,485</u>	<u>\$ 1,592,556</u>	<u>\$ 22,071</u>	<u>\$ 2,117,069</u>

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at July 31:

	7/31/20	7/31/19
Buildings	\$ 2,169,786	\$ 2,169,786
Equipment, furniture and fixtures	265,204	268,176
Leasehold improvements	128,169	124,677
Automobiles	333,592	309,765
	<u>2,896,751</u>	<u>2,872,404</u>
Less accumulated depreciation	(1,582,163)	(1,471,938)
	<u>1,314,588</u>	<u>1,400,466</u>
Land	896,759	896,759
	<u>\$ 2,211,347</u>	<u>\$ 2,297,225</u>

Depreciation expense for the years ended July 31, 2020 and 2019 was \$115,374 and \$110,465, respectively.

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:

	7/31/20	7/31/19
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.	206,986	206,986
	<u>\$ 508,150</u>	<u>\$ 508,150</u>

See accompanying independent auditors' report

BROTHER BENNO FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2020 and 2019

NOTE 8. RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions

As of July 31, 2020 and 2019, respectively, net assets with donor restrictions were available for the following:

	<u>7/31/20</u>	<u>7/31/19</u>
Purpose restricted:		
Health services	\$ 10,399	\$ 10,101
Property and equipment	105,066	53,209
Other programs	7,741	12,241
Time restricted:		
Available for appropriation from endowment funds	343,451	312,538
Permanent endowments:		
Corpus value	<u>503,000</u>	<u>503,000</u>
Total net assets with donor restriction	<u>\$ 969,657</u>	<u>\$ 891,089</u>

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

	<u>7/31/20</u>	<u>7/31/19</u>
Satisfaction of purpose restrictions	\$ 70,534	\$ 40,725

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

BROTHER BENNO FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
 Years Ended July 31, 2020 and 2019

NOTE 9. ENDOWMENT (continued)

The endowment net assets composition by type of fund consists of the following at July 31:

	<u>With Donor Restrictions</u>	
	<u>7/31/20</u>	<u>7/31/19</u>
Donor-restricted endowment funds	\$ <u>846,451</u>	\$ <u>815,538</u>

Changes in endowment net assets consist of the following for the years ended July 31, 2020 and 2019:

	<u>7/31/20</u>	<u>7/31/19</u>
Endowment net assets, beginning of year	\$ 815,538	\$ 803,224
Contributions	-	152
Investment income	<u>30,913</u>	<u>12,162</u>
Endowment net assets, end of year	\$ <u>846,451</u>	\$ <u>815,538</u>

The following reflects the Foundation's endowment net asset composition by fund type as of July 31, 2020:

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>343,451</u>
Total endowment funds classified as net assets with donor restrictions	\$ <u>846,451</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, 2020 and 2019.

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.

BROTHER BENNO FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2020 and 2019

NOTE 10. LEASE COMMITMENTS

The Foundation leases several properties, including a warehouse, a thrift shop and a sober living residence for graduates of the recovery programs.

The warehouse lease is on a month-to-month basis. Total rent paid was \$64,896 for both years ended July 31, 2020 and 2019.

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 sober living residence (see Note 14 regarding the former executive director). Effective November 2019, the Foundation terminated the lease for the sober living residence. Total rent paid to the trusts was \$8,400 and \$29,493 for the years ended July 31, 2020 and 2019.

Total rent paid, including CAM charges, for the thrift shop under noncancelable leases was \$172,363 for both years ended July 31, 2020 and 2019.

Minimum future lease payments under noncancelable lease agreements, exclusive of CAM charges, are due as follows at July 31, 2020:

Year Ending July 31,	
2021	\$ 121,452
2022	<u>70,847</u>
	<u>\$ 192,299</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. IMPACT OF COVID-19

In December 2019, an outbreak of a novel strain of coronavirus 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 declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. In addition, several states in the U.S., including California, where the Foundation is located, declared a state of emergency and then subsequently mandatory, shelter-in-place orders which necessitated temporary closures.

The Foundation's overall financial health was not severely impacted due to increased donor contributions for the period April 2020 – July 2020 over the same period in the prior year. In addition, the Foundation implemented significant reductions in costs.

NOTE 14. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through August 24, 2021, the date which the financial statements were available to be issued.

BROTHER BENNO FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
Years Ended July 31, 2020 and 2019

NOTE 14. SUBSEQUENT EVENTS (continued)

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. 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.

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.