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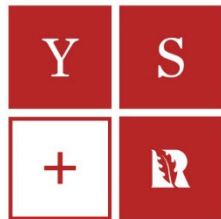
**BROTHER BENNO FOUNDATION, INC.**

FINANCIAL STATEMENTS

July 31, 2022 and 2021

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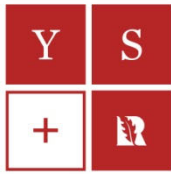
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**BROTHER BENNO FOUNDATION, INC.**  
**FINANCIAL STATEMENTS**  
July 31, 2022 and 2021

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## **INDEPENDENT AUDITORS' REPORT**

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

### ***Opinion***

We have audited the accompanying financial statements of Brother Benno Foundation, Inc. (a California nonprofit organization), which comprise the statements of financial position as of July 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brother Benno Foundation, Inc. as of July 31, 2022 and 2021, 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.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Brother Benno Foundation, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Brother Benno Foundation, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Brother Benno Foundation, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Brother Benno Foundation, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

***Emphasis of Matter – Accounting Pronouncements Recently Adopted***

For the year ended July 31, 2022, the Foundation adopted Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets as described in Note 1. The changes required by the update have been applied to all periods presented. Our opinion is not modified with respect to that matter.

YSR CPA Group, P.C.

Encinitas, California  
January 29, 2024

**BROTHER BENNO FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
July 31, 2022 and 2021

|  | <u>2022</u>             | <u>2021</u>             |
|--|-------------------------|-------------------------|
| <b>ASSETS</b>  |                         |                         |
| CURRENT ASSETS   |                         |                         |
| Cash and cash equivalents  | \$ 1,594,854            | \$ 1,030,635            |
| Investments, current (Note 4)                                    | 149,998                 | 557,915                 |
| Property tax refund receivable                                   | 50,949                  | -                       |
| Other receivables  | 19,502                  | 27,847                  |
| Grants receivable  | 33,807                  | -                       |
| Inventory  | 56,961                  | 49,279                  |
| Prepaid expenses   | 23,567                  | 13,858                  |
| Other assets   | <u>25,000</u>           | <u>-</u>                |
| TOTAL CURRENT ASSETS   | 1,954,638               | 1,679,534               |
| NON-CURRENT ASSETS   |                         |                         |
| Investments, non current (Note 4)                                | 49,503                  | 500,787                 |
| Investments, permanently restricted by donor endowment (Note 10) | 503,000                 | 503,000                 |
| Property and equipment, net of accumulated depreciation (Note 5) | 3,286,960               | 3,192,069               |
| Deposits   | <u>14,123</u>           | <u>14,123</u>           |
| TOTAL NON-CURRENT ASSETS   | <u>3,853,586</u>        | <u>4,209,979</u>        |
| TOTAL ASSETS \$  | <u><u>5,808,224</u></u> | <u><u>5,889,513</u></u> |
| <b>LIABILITIES AND NET ASSETS</b>                                |                         |                         |
| CURRENT LIABILITIES  |                         |                         |
| Accounts payable   | \$ 162,118              | \$ 37,812               |
| Accrued expenses   | 46,523                  | 40,264                  |
| Deferred revenue   | <u>24,226</u>           | <u>12,950</u>           |
| TOTAL CURRENT LIABILITIES  | <u>232,867</u>          | <u>91,026</u>           |
| TOTAL LIABILITIES \$   | <u><u>232,867</u></u>   | <u><u>91,026</u></u>    |
| COMMITMENTS & CONTINGENCIES (Note 13)                            |                         |                         |
| NET ASSETS   |                         |                         |
| Without donor restrictions                                       | 4,916,617               | 4,877,427               |
| With donor restrictions (Note 9)                                 | <u>658,740</u>          | <u>921,060</u>          |
| TOTAL NET ASSETS   | <u>5,575,357</u>        | <u>5,798,487</u>        |
| TOTAL LIABILITIES AND NET ASSETS \$                              | <u><u>5,808,224</u></u> | <u><u>5,889,513</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, 2022

|  | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total</u>        |
|--|---------------------------------------|------------------------------------|---------------------|
| <b>SUPPORT AND REVENUE</b>   |                                       |                                    |                     |
| Contributions  | \$ 1,118,372                          | \$ 398,126                         | \$ 1,516,498        |
| Contributed nonfinancial assets (Note 8)                                       | 2,747,278                             | -                                  | 2,747,278           |
| Government grants and assistance   | 64,903                                | -                                  | 64,903              |
| Thrift shop sales  | 672,853                               | -                                  | 672,853             |
| Rental income  | 76,717                                | -                                  | 76,717              |
| Special event revenue net direct expenses of \$5,941                           | 26,870                                | -                                  | 26,870              |
| Investment return  | 5,715                                 | -                                  | 5,715               |
| Gain (loss) on disposal of property and equipment                              | (430)                                 | -                                  | (430)               |
| Other income   | 9,838                                 | -                                  | 9,838               |
| Net assets released from restrictions,<br>satisfaction of program restrictions | 360,397                               | (360,397)                          | -                   |
| satisfaction of time restrictions  | 300,049                               | (300,049)                          | -                   |
|  | <u>5,382,562</u>                      | <u>(262,320)</u>                   | <u>5,120,242</u>    |
| TOTAL SUPPORT AND REVENUE  | 5,382,562                             | (262,320)                          | 5,120,242           |
| <b>EXPENSES</b>  |                                       |                                    |                     |
| Program services   |                                       |                                    |                     |
| Poor & Homeless Services   | 3,503,565                             | -                                  | 3,503,565           |
| Case Management  | 382,811                               | -                                  | 382,811             |
| Recovery Program   | 263,516                               | -                                  | 263,516             |
| Thrift Shop  | 614,362                               | -                                  | 614,362             |
| Supporting services  |                                       |                                    |                     |
| Management and general   | 577,792                               | -                                  | 577,792             |
| Fundraising  | 1,326                                 | -                                  | 1,326               |
|  | <u>5,343,372</u>                      | <u>-</u>                           | <u>5,343,372</u>    |
| TOTAL EXPENSES   | 5,343,372                             | -                                  | 5,343,372           |
| INCREASE (DECREASE) IN NET ASSETS  | 39,190                                | (262,320)                          | (223,130)           |
| NET ASSETS AT BEGINNING OF YEAR  | <u>4,877,427</u>                      | <u>921,060</u>                     | <u>5,798,487</u>    |
| NET ASSETS AT END OF YEAR  | <u>\$ 4,916,617</u>                   | <u>\$ 658,740</u>                  | <u>\$ 5,575,357</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, 2021

|  | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total</u>        |
|--|---------------------------------------|------------------------------------|---------------------|
| <b>SUPPORT AND REVENUE</b>   |                                       |                                    |                     |
| Contributions  | \$ 703,857                            | \$ 354,161                         | \$ 1,058,018        |
| Contributed nonfinancial assets (Note 8)                                       | 2,510,072                             | -                                  | 2,510,072           |
| Forgiveness of debt (Note 7)   | 508,150                               | -                                  | 508,150             |
| Government grants and assistance   | 31,472                                | -                                  | 31,472              |
| Thrift shop sales  | 621,825                               | -                                  | 621,825             |
| Rental income  | 86,155                                | -                                  | 86,155              |
| Special event revenue net direct expenses of \$2,404                           | 24,449                                | 5,688                              | 30,137              |
| Investment return  | 4,154                                 | 3,760                              | 7,914               |
| Other income   | 20,884                                | -                                  | 20,884              |
| Net assets released from restrictions,<br>satisfaction of program restrictions | 412,206                               | (412,206)                          | -                   |
| TOTAL SUPPORT AND REVENUE  | 4,923,224                             | (48,597)                           | 4,874,627           |
| <b>EXPENSES</b>  |                                       |                                    |                     |
| Program services   |                                       |                                    |                     |
| Poor & Homeless Services   | 3,267,205                             | -                                  | 3,267,205           |
| Case Management  | 210,023                               | -                                  | 210,023             |
| Recovery Program   | 223,373                               | -                                  | 223,373             |
| Thrift Shop  | 597,895                               | -                                  | 597,895             |
| Supporting services  |                                       |                                    |                     |
| Management and general   | 139,801                               | -                                  | 139,801             |
| Fundraising  | 40,001                                | -                                  | 40,001              |
| TOTAL EXPENSES   | 4,478,298                             | -                                  | 4,478,298           |
| INCREASE (DECREASE) IN NET ASSETS  | 444,926                               | (48,597)                           | 396,329             |
| NET ASSETS AT BEGINNING OF YEAR<br>(as previously stated)                      | 3,472,501                             | 969,657                            | 4,442,158           |
| RESTATEMENT (Note 14)  | 960,000                               | -                                  | 960,000             |
| NET ASSETS AT BEGINNING OF YEAR<br>(as restated)                               | <u>4,432,501</u>                      | <u>969,657</u>                     | <u>5,402,158</u>    |
| NET ASSETS AT END OF YEAR  | <u>\$ 4,877,427</u>                   | <u>\$ 921,060</u>                  | <u>\$ 5,798,487</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, 2022

|                             | Program Services         |                   |                   |                   | Supporting Services    |                 | Total Expenses      |
|-----------------------------|--------------------------|-------------------|-------------------|-------------------|------------------------|-----------------|---------------------|
|                             | Poor & Homeless Services | Case Management   | Recovery Program  | Thrift Shop       | Management and General | Fundraising     |                     |
| Advertising                 | \$ -                     | \$ -              | \$ -              | \$ 1,419          | \$ 44                  | \$ -            | \$ 1,463            |
| Auto                        | 43,001                   | 1,690             | 6,861             | 8,869             | -                      | -               | 60,421              |
| Charitable In-Kind          | 2,747,278                | -                 | -                 | -                 | -                      | -               | 2,747,278           |
| Depreciation                | 30,361                   | 27,391            | 49,389            | 4,402             | 29,687                 | -               | 141,230             |
| Direct Program Expense      | 66,944                   | -                 | 1,051             | 2,425             | -                      | -               | 70,420              |
| Equipment Rental            | 2,122                    | -                 | 56                | 561               | 4,534                  | -               | 7,273               |
| Fundraising                 | -                        | -                 | -                 | -                 | 2                      | 214             | 216                 |
| Grants and Other Assistance | 31,730                   | 321,519           | 19,992            | 12,202            | -                      | -               | 385,443             |
| Insurance                   | 27,816                   | -                 | 5,991             | 11,163            | 37,087                 | -               | 82,057              |
| Miscellaneous               | 18,417                   | -                 | 512               | 778               | 1,525                  | 541             | 21,773              |
| Occupancy                   | 76,644                   | 17,869            | 46,885            | 196,904           | 74,828                 | -               | 413,130             |
| Office Expenses             | 28,148                   | 13,533            | 10,776            | 23,059            | 19,833                 | 571             | 95,920              |
| Payroll Taxes               | 27,280                   | -                 | 8,254             | 25,645            | 5,017                  | -               | 66,196              |
| Permits and licenses        | -                        | -                 | -                 | -                 | 16,360                 | -               | 16,360              |
| Postage and shipping        | 862                      | 26                | 187               | 119               | 7,481                  | -               | 8,675               |
| Printing and publications   | 373                      | -                 | -                 | 10                | 35,973                 | -               | 36,356              |
| Professional Fees           | 2,260                    | -                 | -                 | 61                | 218,158                | -               | 220,479             |
| Repairs and Maintenance     | 1,617                    | 176               | 4,425             | 1,984             | 62,008                 | -               | 70,210              |
| Salaries and Wages          | 339,310                  | -                 | 102,590           | 315,139           | 60,394                 | -               | 817,433             |
| Supplies                    | 59,402                   | 607               | 6,547             | 9,622             | 4,861                  | -               | 81,039              |
|                             | <u>\$ 3,503,565</u>      | <u>\$ 382,811</u> | <u>\$ 263,516</u> | <u>\$ 614,362</u> | <u>\$ 577,792</u>      | <u>\$ 1,326</u> | <u>\$ 5,343,372</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, 2021

|                             | Program Services         |                   |                   |                   | Supporting Services    |                  | Total Expenses      |
|-----------------------------|--------------------------|-------------------|-------------------|-------------------|------------------------|------------------|---------------------|
|                             | Poor & Homeless Services | Case Management   | Recovery Program  | Thrift Shop       | Management and General | Fundraising      |                     |
| Advertising                 | \$ -                     | \$ -              | \$ -              | \$ 199            | \$ -                   | \$ -             | \$ 199              |
| Auto                        | 26,092                   | -                 | 6,683             | 10,786            | -                      | -                | 43,561              |
| Charitable In-Kind          | 2,507,692                | -                 | -                 | -                 | -                      | 9,450            | 2,517,142           |
| Depreciation                | 79,152                   | 1,071             | 62,011            | 2,595             | 2,999                  | 536              | 148,364             |
| Direct Program Expense      | 81,507                   | -                 | 830               | -                 | -                      | -                | 82,337              |
| Equipment Rental            | 3,969                    | 270               | 450               | 509               | 216                    | 135              | 5,549               |
| Fundraising                 | -                        | -                 | -                 | -                 | -                      | 600              | 600                 |
| Grants and Other Assistance | 39,245                   | 196,759           | 22,982            | -                 | -                      | 11,825           | 270,811             |
| Insurance                   | 22,972                   | -                 | 14,932            | 12,160            | 3,951                  | 438              | 54,453              |
| Miscellaneous               | 15,321                   | -                 | 426               | 647               | 1,269                  | 450              | 18,113              |
| Occupancy                   | 98,652                   | 3,892             | 52,454            | 198,142           | 50,705                 | 2,258            | 406,103             |
| Office Expenses             | 41,939                   | 2,473             | 10,703            | 20,790            | 6,619                  | 1,091            | 83,615              |
| Payroll Taxes               | 17,002                   | 432               | 2,358             | 25,389            | 1,284                  | -                | 46,465              |
| Postage and shipping        | 27,417                   | -                 | -                 | -                 | 66                     | 351              | 27,834              |
| Printing and publications   | 11,880                   | -                 | -                 | 450               | -                      | 3,409            | 15,739              |
| Professional Fees           | 10,866                   | -                 | 16,705            | 4,948             | 53,835                 | 9,450            | 95,804              |
| Repairs and Maintenance     | 26,133                   | -                 | 2,007             | 8,447             | 4,584                  | -                | 41,171              |
| Salaries and Wages          | 214,042                  | 5,027             | 29,150            | 304,161           | 13,572                 | -                | 565,952             |
| Supplies                    | 43,246                   | 99                | 1,682             | 8,672             | 701                    | 8                | 54,408              |
| Travel                      | 78                       | -                 | -                 | -                 | -                      | -                | 78                  |
|                             | <u>\$ 3,267,205</u>      | <u>\$ 210,023</u> | <u>\$ 223,373</u> | <u>\$ 597,895</u> | <u>\$ 139,801</u>      | <u>\$ 40,001</u> | <u>\$ 4,478,298</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, 2022 and 2021

|   | <u>2022</u>                 | <u>2021</u>                 |
|---|-----------------------------|-----------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                             |                             |
| Change in net assets  | \$ (223,130)                | \$ 396,329                  |
| Adjustments to reconcile change in net assets to net cash and cash equivalents provided (used) by operating activities: |                             |                             |
| Depreciation  | 141,230                     | 148,364                     |
| Loss on disposal of fixed assets  | 430                         | -                           |
| Contributed securities  | -                           | (2,380)                     |
| Proceeds from sale of contributed securities  | 2,526                       | -                           |
| Unrealized gain on contributed securities   | -                           | (35)                        |
| Realized gain on contributed securities   | (146)                       | -                           |
| Investment (gain) loss  | 13,881                      | 27,258                      |
| Donated resale inventory  | (7,682)                     | (13,709)                    |
| Forgiveness of refundable advance   | -                           | (508,150)                   |
| Changes in operating assets and liabilities:  |                             |                             |
| Property tax refund receivable  | (50,949)                    | -                           |
| Other receivables   | 8,345                       | (11,914)                    |
| Grants receivables  | (33,807)                    | 85,000                      |
| Prepaid expenses  | (9,709)                     | (12,858)                    |
| Deposits  | -                           | (1,611)                     |
| Other assets  | (25,000)                    | (28,837)                    |
| Accounts payable  | 127,974                     | 26,688                      |
| Accrued expenses  | 2,591                       | 8,642                       |
| Deferred revenue  | 11,276                      | 12,950                      |
|   | <u>                    </u> | <u>                    </u> |
| CASH AND CASH EQUIVALENTS PROVIDED (USED)<br>BY OPERATING ACTIVITIES  | (42,170)                    | 125,737                     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                             |                             |
| Purchases of property and equipment   | (236,551)                   | (140,249)                   |
| Proceeds from sales of investments  | 842,940                     | 471,867                     |
|   | <u>                    </u> | <u>                    </u> |
| CASH AND CASH EQUIVALENTS PROVIDED BY INVESTING ACTIVITIES  | 606,389                     | 331,618                     |
|   | <u>                    </u> | <u>                    </u> |
| INCREASE IN CASH AND CASH EQUIVALENTS   | 564,219                     | 457,355                     |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR  | 1,030,635                   | 573,280                     |
|   | <u>                    </u> | <u>                    </u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR  | \$ <u>1,594,854</u>         | \$ <u>1,030,635</u>         |

**SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITIES**

During the year ended July 31, 2021, the refundable advances from the City of Oceanside were forgiven in the amount of \$508,150

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

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Years Ended July 31, 2022 and 2021

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**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 that are 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 THE FINANCIAL STATEMENTS**  
For the Years Ended July 31, 2022 and 2021

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**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

*Topic 958*

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 a NFP's programs and other activities. A NFP is 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. A NFP is 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. Effective July 1, 2021, the Organization adopted ASU 2020-07 and the changes required by the update have been applied to all periods presented. See Contributed Nonfinancial Assets within Note 1 for additional disclosures.

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Years Ended July 31, 2022 and 2021

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

New Accounting Pronouncements Recently Adopted (continued)

*Topic 842*

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which amends the existing guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and by disclosing key information about leasing arrangements. ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014.

Additionally, in July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases, Targeted Improvements. The amendments in these updates provide additional clarification and implementation guidance on certain aspects of ASU 2016-02 and have the same effective and transition requirements as ASU 2016-02. Specifically, ASU 2018-11 creates an additional transition method option allowing entities to record a cumulative effect adjustment to opening net assets in the year of adoption.

In December 2018, the FASB further issued ASU 2018-20, Leases (Topic 842) Narrow-Scope Improvements for Lessors. The amendments in this update permits lessors to make an accounting policy election to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs and instead account for the costs as if they were lessee costs. Additionally, the amendment requires lessors to exclude from variable payments, and therefore revenue, lessor costs paid by lessees directly to third parties. The amendments also require lessors to account for costs excluded from the consideration of a contract that are paid by the lessor and reimbursed by the lessee as variable payments.

In March 2019, the FASB also issued ASU 2019-01, Leases (Topic 842) Codification Improvements, to further clarify certain identified issues regarding implementation of ASU 2016-02. Specifically, the amendments in ASU 2019-01 clarify the determination of fair value of underlying assets by lessors that are not manufacturers or dealers, the cash flow presentation of sales-type or direct financing leases, and transition disclosures for interim periods. Issued in November 2019, ASU 2019-10, "Financial Instruments-Credit Losses, Derivatives and Hedging, and Leases" alters the effective date of ASU 2016-02 for private companies. On June 3, 2020, the FASB issued ASU 2020-05, which deferred the effective dates of the Board's standards on ASU 2016-02 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. The Foundation intends to adopt ASU 2016-02 effective July 1, 2022.

*Topic 832*

In October 2021, the FASB Issued ASU 2021-10 Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance, which aims to provide increased transparency by requiring business entities to disclose information about certain types of government assistance they receive in the notes to the financial statements. The disclosure requirements in ASC 832 only apply to transactions with a government that are accounted for by analogizing to either a grant model (for example, in International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance), or a contribution model (for example, in ASC 958-605, Not-for-Profit Entities – Revenue Recognition).

**BROTHER BENNO FOUNDATION, INC.**  
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**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Recent Accounting Pronouncements Not Yet Adopted (continued)

*Topic 832 (continued)*

- The accounting policies used to account for the transactions.
- Line items on the statement of financial position and statement of activities affected by the transactions and the amounts applicable to each financial statement line item in the current reporting period.

Entities are required to provide the new disclosures prospectively for all transactions with a government entity that are accounted for under either a grant or a contribution accounting model and are reflected in the financial statements at the date of initially applying the new amendments, and to new transactions entered into after that date. Retrospective application of the guidance is permitted. The guidance in ASU 2021-10 is effective for financial statements of all entities, including private companies, for annual periods beginning after December 15, 2021, with early application permitted. The Foundation intends to adopt ASU 2021-10 effective July 1, 2022.

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

Accounts receivables arise in the normal course of operations. It is the policy of management to review outstanding accounts receivable at year-end, as well as the bad debt write-offs experienced in the past to establish an allowance for doubtful accounts. Accounts receivable consist of miscellaneous reimbursements due to the Foundation. Based on the judgment of management and past collection histories, no allowance for doubtful accounts has been recorded as of July 31, 2022 and 2021.

Grants Receivables

Grants receivables consist primarily of amounts due from private and governmental agencies. All such receivables are stated at the amount management expects to collect.

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.

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Property and Equipment

The Foundation capitalizes all expenditures in excess of \$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.

Revenue Recognition

*Revenue from Contracts with Customers*

The Foundation adopted Financial Accounting Standards Board's (FASB) accounting standards update (ASU) ASU 2014-09, Revenue from Contracts with Customers (Topic 606) effective August 1, 2020. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Foundation generally measures revenue based on the amount of consideration the Foundation expects to be entitled for the transfer of goods to a customer, then recognizes this revenue when the Foundation satisfies its performance obligations.

The Foundation evaluates its revenue contracts with customers based on the five-step model under Topic 606: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognize revenue when (or as) each performance obligation is satisfied.

The Foundation has determined that thrift shop sales, revenue received for special event sponsorship and a portion of special event tickets represent exchange transactions that must be recognized under ASC 606. The Foundation recognizes thrift shop sales at a point in time when the sale occurs and there is a transfer of goods to the customer. The Foundation has no further performance obligations related to the sales and there are no additional services required by the Foundation.

Revenue from sponsorships for special events and ticket sales to events is recognized at a point in time, when the event takes place. Meals and entertainment are the only performance obligations of more than nominal value for these contracts. Event ticket purchases and sponsorship fees received prior to the event taking place are recorded as deferred revenue in the statement of financial position and recognized in future periods when the event occurs. There were no other significant exchange revenues during the years ended July 31, 2022 and 2021.

*Program Revenue*

Program revenue comprises rental income revenue from graduates of the recovery and sober living programs. Rental income is recognized in the month earned.

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Revenue Recognition (continued)

*Government Grants and Assistance*

The Foundation received pass-through funding from various non-profit organizations that are subrecipients of state funded and federal funding sources. As the beneficiary of the program receives the benefit, these transactions are determined not to be exchange transactions.

*Contributions and Support*

Contributed revenue may include gifts of cash or promises to give. Contributions and grants are recognized as revenues in the period received and 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. 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.

The Foundation adopted ASU 2018-08, Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made effective August 1, 2020. In accordance with Topic 958, Revenue Recognition, the Foundation must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement.

*Contributed Nonfinancial Assets*

Contributed physical assets, investments, and other noncash donations are recorded as contributions at their fair market value at their date of donation. The Foundation reports the donations in the net assets without donor restrictions category, unless explicit donor stipulations specify how the donated assets must be used. Such items are capitalized or charged to expense as appropriate.

The Foundation recognized contributed nonfinancial assets of \$2,747,278 and \$2,510,072 for the years ended July 31, 2022 and 2021, respectively, and expenses of \$2,747,278 and \$2,507,692 for the years ended July 31, 2022 and 2021, respectively, in the statements of activities (see Note 8). 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.

*Contributed Services*

The Foundation utilizes the services of volunteers throughout the year that perform a variety of tasks to assist 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.



**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Years Ended July 31, 2022 and 2021

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

Revenue Recognition (continued)

*Contributed Services (continued)*

Some members of the Foundation have also donated significant amounts of time to the Foundation in furthering its programs and objectives. However, no amounts have been included in the financial statements for donated member or volunteer services since they did not meet the criteria for recognition.

Functional Expenses

The Foundation allocates its expenses on a functional basis among its various programs and support services. The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis, such as time and effort or full time equivalents. 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)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Foundation has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. 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, 2022 and 2021, 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, 2022 and 2021. Management believes the Foundation is no longer subject to income tax examinations by applicable taxing jurisdictions for the years prior to July 31, 2018.

Advertising

The Foundation expenses the cost of advertising as incurred. Advertising expense for the years ended July 31, 2022 and 2021 was \$1,463 and \$199, 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.

**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.

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Years Ended July 31, 2022 and 2021

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**NOTE 2. AVAILABILITY AND LIQUIDITY (continued)**

The following represents the Foundation's financial assets, reduced by amounts not available for general use, are as follows as of July 31:

| Financial assets at year-end:   | <u>2022</u>         | <u>2021</u>         |
|---|---------------------|---------------------|
| Cash  | \$ 1,594,854        | \$ 1,030,635        |
| Investments   | <u>702,501</u>      | <u>1,561,702</u>    |
| Total financial assets  | <u>2,297,355</u>    | <u>2,592,337</u>    |
|   |                     |                     |
| Less amounts not available to be used within one year:                              |                     |                     |
| Restricted by donor with purpose restrictions                                       | 106,237             | 70,849              |
| Restricted by donor with time restrictions held in endowment funds                  | 49,503              | 347,211             |
| Portion of donor-restricted endowment to be retained in perpetuity                  | <u>503,000</u>      | <u>503,000</u>      |
|   |                     |                     |
| Financial assets available to meet general expenditures over the next twelve months | <u>\$ 1,638,615</u> | <u>\$ 1,671,277</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 \$149,998 at any time. Additionally, the Foundation can draw \$49,503 from the accumulated earnings in 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 Securities Investor Protection Corporation (SIPC) up to a limit of \$250,000 per depositor, respectively. As of July 31, 2022, \$390,135 exceeded the FDIC or SIPC limit of \$250,000. As of July 31, 2021, \$81,652 exceeded the FDIC or SIPC 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 year from July 31, 2022 and are stated at fair value based on quoted prices in active markets (all Level 1 measurements). The CDs are held by Royal Bank of Canada and insured by the FDIC.

See accompanying independent auditors' report

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 4. FAIR VALUE MEASUREMENTS (continued)**

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

|   | 2022              |                   |  | 2021                |
|---|-------------------|-------------------|--|---------------------|
|   | Cost              | Fair Value        | Unrealized<br>Appreciation<br>(Depreciation) | Fair Value          |
| Fixed income CD's                                   | \$ 150,075        | \$ 149,998        | \$ (77)                                      | \$ 1,055,844        |
| Equity stock  | -                 | -                 | -  | 2,415               |
| Money market funds                                  | 49,503            | 49,503            | -  | 443                 |
|   | <u>\$ 199,578</u> | <u>\$ 199,501</u> | <u>\$ (77)</u>                               | <u>\$ 1,058,702</u> |
|   |                   |                   | 2022   | 2021                |
|   |                   |                   | Fair Value                                   | Fair Value          |
| Investments, current                                |                   |                   |  |                     |
| Fixed income CD's                                   |                   | \$ 149,998        | \$   | 555,500             |
| Equity stock  |                   | -                 |  | 2,415               |
| Total investments, current                          |                   | 149,998           |  | 557,915             |
| Investments, non-current                            |                   |                   |  |                     |
| Fixed income CD's                                   |                   | -                 |  | 153,576             |
| Money market funds - accumulated endowment earnings |                   | 49,503            |  | 347,211             |
| Total investments, non-current                      |                   | 49,503            |  | 500,787             |
| Total investments                                   |                   | \$ 199,501        | \$   | 1,058,702           |

**NOTE 5. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of July 31:

|                                   | 2022                | 2021                |
|-----------------------------------|---------------------|---------------------|
| Buildings                         | \$ 2,649,786        | \$ 2,649,786        |
| Equipment, furniture and fixtures | 385,242             | 323,780             |
| Leasehold improvements            | 145,274             | 139,169             |
| Automobiles                       | 404,265             | 404,265             |
|                                   | <u>3,584,567</u>    | <u>3,517,000</u>    |
| Less accumulated depreciation     | <u>(1,871,032)</u>  | <u>(1,730,527)</u>  |
|                                   | 1,713,535           | 1,786,473           |
| Land                              | 1,376,759           | 1,376,759           |
| Construction in progress          | 196,666             | 28,837              |
|                                   | <u>\$ 3,286,960</u> | <u>\$ 3,192,069</u> |

Depreciation expense for the years ended July 31, 2022 and 2021 was \$141,230 and \$148,364, 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.

See accompanying independent auditors' report

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 7. REFUNDABLE ADVANCE**

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. On March 29, 2022, the Foundation was notified that the loans have been forgiven effective November 3, 2020. The loan forgiveness has been recognized in the statement of activities for the year ended July 31, 2021 in the amount of \$508,150.

**NOTE 8. CONTRIBUTED NONFINANCIAL ASSETS**

Revenues from contributions of nonfinancial assets recognized within the statements of activities were as follows for the years ended July 31:

|                     |    | 2022      |    | 2021      | Usage in programs/ activities | Donor imposed restrictions | Fair value techniques and inputs                |
|---------------------|----|-----------|----|-----------|-------------------------------|----------------------------|---|
| Clothing            | \$ | 118,694   | \$ | -         | Poor & homeless services      | None                       | Estimates based on similar products             |
| Food                |    | 2,628,584 |    | 2,507,692 | Poor & homeless services      | None                       | Estimates based on similar services             |
| Stock contributions |    | -         |    | 2,380     | Poor & homeless services      | None                       | Fair market value based on date of contribution |
| Total               | \$ | 2,747,278 | \$ | 2,510,072 |                               |                            |   |

All gifts are recognized in accordance with donor restrictions, when applicable. The Foundation's general practice is to monetize contributed stock, depending upon current market conditions. The Foundation does not sell the other contributed nonfinancial assets and utilizes in program use, as appropriate.

Contributions of nonfinancial assets were utilized during the years ended July 31, 2022 and 2021. Program expenses in the amount of \$2,747,278 and \$2,510,072 (including \$2,380 from stock contributions) respectively, are valued and reported at the actual cost to the Foundation.

**NOTE 9. RESTRICTIONS ON NET ASSETS**

Net assets with donor restrictions were available for the following as of July 31:

|  | <u>2022</u>       | <u>2021</u>       |
|--|-------------------|-------------------|
| Purpose restricted:                              |                   |                   |
| Food   | \$ 5,300          | \$ -              |
| Health services                                  | 6,087             | 10,399            |
| Property and equipment                           | 7,014             | 22,806            |
| Special events                                   | 3,600             | 5,688             |
| Other programs                                   | 84,236            | 31,956            |
| Time restricted:                                 |                   |                   |
| Available for appropriation from endowment funds | 49,503            | 347,211           |
| Permanent endowments:                            |                   |                   |
| Corpus value                                     | <u>503,000</u>    | <u>503,000</u>    |
| Total net assets with donor restrictions         | <u>\$ 658,740</u> | <u>\$ 921,060</u> |

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**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 9. RESTRICTIONS ON NET ASSETS (continued)**

Net assets released from net assets with donor restrictions are as follows for the years ended July 31:

|   | <u>2022</u>       | <u>2021</u>       |
|---|-------------------|-------------------|
| Satisfaction of purpose restrictions                              | \$ 360,397        | \$ 412,206        |
| Satisfaction of time restrictions                                 | <u>300,049</u>    | <u>-</u>          |
| Total net assets released from net assets with donor restrictions | <u>\$ 660,446</u> | <u>\$ 412,206</u> |

**NOTE 10. 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

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

|                                  | <u>With Donor Restrictions</u> |                   |
|----------------------------------|--------------------------------|-------------------|
|                                  | <u>2022</u>                    | <u>2021</u>       |
| Donor-restricted endowment funds | \$ <u>552,503</u>              | \$ <u>850,211</u> |

**BROTHER BENNO FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 10. ENDOWMENT (continued)**

Changes in endowment net assets consist of the following as of July 31:

|   | <u>2022</u>       | <u>2021</u>       |
|---|-------------------|-------------------|
| Endowment net assets, beginning of year | \$ 850,211        | \$ 846,451        |
| Investment income                       | 2,341             | 3,760             |
| Appropriation of assets for expenditure | <u>(300,049)</u>  | <u>-</u>          |
| Endowment net assets, end of year       | <u>\$ 552,503</u> | <u>\$ 850,211</u> |

The following reflects the Foundation's endowment net asset composition by fund type as of July 31, 2022:

|   |                   |
|---|-------------------|
| 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>49,503</u>     |
| Total endowment funds classified as net assets with donor restrictions                                      | <u>\$ 552,503</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, 2022 and 2021.

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 11. LEASE COMMITMENTS**

The Foundation leases a warehouse for use in operations and program services on a month-to-month basis. Total rent paid was \$69,969 and \$78,760 for the years ended July 31, 2022 and 2021, respectively.

Since October 2012, the Foundation also leases space for its thrift shop under a noncancelable lease. Effective January 29, 2019 through January 31, 2022, the monthly lease payment was \$8,347. On January 6, 2022, the lease was extended to January 31, 2027 and amended to include additional storage space for monthly lease payments of \$10,121. There is no provision for increases over the term of the lease. Rent paid for the thrift shop, including CAM charges, was \$176,014 and \$172,363 for the years ended July 31, 2022 and 2021, respectively.

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**NOTE 11. LEASE COMMITMENTS (continued)**

Minimum future lease payments under noncancelable lease agreements, exclusive of CAM charges, are due as follows as of July 31, 2022:

| Year Ending<br>July 31, |                   |
|-------------------------|-------------------|
| 2023                    | 121,452           |
| 2024                    | 121,452           |
| 2025                    | 121,452           |
| 2026                    | 121,452           |
| 2027                    | 70,847            |
|                         | <u>\$ 556,655</u> |

**NOTE 12. 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 13. COMMITMENTS & 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.

In March 2018, Harold Kutler, the Executive Director, passed away triggering the provisions of the Kutler Charitable Remainder Trust and the Kutler Family Trust (collectively the "Trusts"). The Trusts each owned one-half of the real estate property located at 3260 Production Ave. (the "Property"). The Foundation was named as a beneficiary of the Property from the Trusts. In July 2018, the Foundation was notified that the Kutler Family Trust was being contested by one of the surviving beneficiaries.

On December 28, 2018, the Kutler Charitable Remainder Trust's 50% interest in the Property including all rights, title and interest was transferred to the Foundation.

On March 15, 2022, a settlement was reached regarding the ownership of the Foundation's operations center located at 3260 Production Ave in which the Kutler Family Trust 50% interest in the Property including all rights, title and interest was awarded to the Foundation.

**NOTE 14. RESTATEMENTS**

On December 28, 2018, the Kutler Charitable Remainder Trust's 50% interest in real property located at 3260 Production Ave, including all rights, title and interest. was transferred to the Foundation. Subsequently, a settlement was reached regarding the 50% ownership interest held by the Kutler Family Trust as of the original date of title transfer (See Note 13). An adjusting entry was recorded to recognize the valuation of the property as of December 28, 2018 in the amount of \$960,000 for building and land. A true-up for accumulated depreciation through July 31, 2021 was recorded.

**NOTE 15. RECLASSIFICATIONS**

Certain items in the 2021 financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.

See accompanying independent auditors' report

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**NOTE 16. SUBSEQUENT EVENTS**

The Foundation has evaluated subsequent events through January 29, 2024, the date which the financial statements were available to be issued.