BROTHER BENNO'S

THE BROTHER BENNO FOUNDATION, INC.

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

As of and For

YEAR ENDED JULY 31, 2023

MILLER CPA GROUP, P.C.
AN AUDITING AND CONSULTING FIRM

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MILLER CPA GROUP, P.C.
AN AUDITING AND CONSULTING FIRM

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of The Brother Benno Foundation, Inc. (a California nonprofit organization), which comprise the statement of financial position as of July 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year 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 The Brother Benno Foundation, Inc. as of July 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 The 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 The 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 auditor's 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 The 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 The 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.

Miller CPA Group, P.C.

Carlsbad, California
October 10, 2024

THE BROTHER BENNO FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
July 31, 2023

	2023
Assets	
Current Assets	
Cash	$ 624,594
Grant receivables	256,672
Other receivables	42,422
Investments, short term	599,552
Inventory	61,759
Prepaid expenses and other assets	36,990
Total Current Assets	1,621,989
Noncurrent Assets	
Property and equipment, net of accumulated depreciation	3,726,829
Investments, long term	400,375
Investments, permanently restricted by donor endowment	503,000
Right-of-use asset, operating lease, net of accumulated amortization	559,426
Total Noncurrent Assets	5,189,630
Total Assets	$ 6,811,619
Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	$ 491,986
Deferred revenue	15,600
Operating lease obligation, current portion	165,360
Total Current Liabilities	672,946
Noncurrent Liabilities	
Operating lease obligation, net of current portion	397,327
Total Liabilities	1,070,273
Commitments and Contingencies	
Net Assets	
Without donor restrictions	5,107,877
With donor restrictions	633,469
Total Net Assets	5,741,346
Total Liabilities and Net Assets	$ 6,811,619

The accompanying notes are an integral part of the financial statements.

THE BROTHER BENNO FOUNDATION, INC.
STATEMENT OF ACTIVITIES
For the Year Ended July 31, 2023

	2023		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Support and Revenue			
Contributions and grants	$ 1,384,844	$ 554,567	$ 1,939,411
Contributed nonfinancial assets	4,316,965	-	4,316,965
Government grants	-	21,385	21,385
Special events less direct expenses of $16,274	126,189	-	126,189
Thrift shop revenue	693,559	-	693,559
Rental income	141,924	-	141,924
Interest income	403	-	403
Investment income	7,524	3,333	10,857
Loss on disposal of fixed assets	(15,174)	-	(15,174)
Other income	3,364	-	3,364
Miscellaneous income	1,618	-	1,618
Net assets released from restrictions	604,556	(604,556)	-
Total Support and Revenue	7,265,772	(25,271)	7,240,501
Expenses			
Program services			
Poor & Homeless Services	4,529,942	-	4,529,942
Case Management	482,683	-	482,683
Recovery Program	286,684	-	286,684
Thrift Shop	1,190,806	-	1,190,806
	6,490,115	-	6,490,115
Supporting services			
Management and general	584,397	-	584,397
Total Expenses	7,074,512	-	7,074,512
Change in Net Assets	191,260	(25,271)	165,989
Net Assets, Beginning	4,916,617	658,740	5,575,357
Net Assets, Ending	$ 5,107,877	$ 633,469	$ 5,741,346

THE BROTHER BENNO FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended July 31, 2023

	Program Services					
	Poor & Homeless Services	Case Management	Recovery Program	Thrift Shop	Management and General	Total
Grants and assistance	$ -	$ 318,318	$ 2,086	$ -	$ -	$ 320,404
Direct program expenses	109,565	15,090	33,006	15,649	469	173,779
Salaries and wages	246,423	133,041	114,303	355,831	187,984	1,037,582
Payroll taxes	19,830	10,706	9,198	28,635	15,128	83,497
Professional fees	3,240	-	-	1,185	36,936	41,361
Promotion and marketing	-	-	-	1,761	793	2,554
Office expenses	15,578	2,622	1,990	20,693	56,027	96,910
Information technology	-	-	-	-	7,601	7,601
Occupancy	41,599	-	73,589	230,864	162,110	508,162
Travel	59,558	1,528	-	10,589	1,904	73,579
Depreciation	76,453	43	45,461	6,113	1,025	129,095
Insurance	35,940	1,335	1,335	25,162	45,712	109,484
Charitable In-kind	3,831,049	-	1,820	484,096		4,316,965
Equipment rental	6,942	-	599	1,318	48,655	57,514
Supplies	83,765	-	3,297	8,910	2,865	98,837
Fundraising	-	-	-	-	1,662	1,662
Miscellaneous	-	-	-	-	15,526	15,526
Total Expenses	$ 4,529,942	$ 482,683	$ 286,684	$ 1,190,806	$ 584,397	$ 7,074,512

The accompanying notes are an integral part of the financial statements.

THE BROTHER BENNO FOUNDATION, INC.
STATEMENT OF CASH FLOWS
For the Year Ended July 31, 2023

		2023
Cash Flows From Operating Activities		
Change in net assets	$	165,989
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation		129,095
Loss on disposal of fixed assets		14,075
Contributed securities		(4,781)
Proceeds from sale of contributed securities		6,259
Realized gain on contributed securities		(1,478)
Realized and unrealized gains (loss) on investments		(7,531)
Donated resale inventory		(4,798)
Changes in operating assets and liabilities		
Accounts receivable		33,807
Grant receivables		(256,672)
Other receivables		28,029
Prepaid expenses and other assets		700
Accounts payable and accrued expenses		283,345
Deferred revenue		(8,626)
Operating lease obligations		3,261
Net Cash Used by Operating Activities		380,674
Cash Flows From Investing Activities		
Purchases of property and equipment		(558,039)
Proceeds from sales of investments		166,602
Purchases of investments		(1,512,000)
Net Cash Used By Investing Activities		(1,903,437)
Net Change in Cash		(1,522,763)
Cash, Beginning		2,147,357
Cash, Ending	$	624,594

The accompanying notes are an integral part of the financial statements.

NOTE 1. ORGANIZATION

The 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 in addition to private and government grants.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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).

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, whereby 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 statement 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 investment income. Nonoperating activities are limited to other activities considered to be of a more unusual or nonrecurring nature.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 measurement 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 measurement 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 a 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, accounts receivable, other assets, accounts payable and accrued expenses, fair value approximates carrying value.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Pronouncements Recently Adopted

Accounting Standards Update (ASU) 2016-02, Leases

In February 2016, the FASB issued ASU 2016-02, Leases (ASC Topic 842) to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the statements of activities.

The Foundation adopted ASU-2016-02 effective August 1, 2022. Under ASU 2016-02, the Foundation has elected to implement the certain practical expedients as follows:

- The accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate, vehicle, and equipment asset classes. The non-lease components typically represent additional services transferred to the Foundation, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.
- The short-term lease exception in which lessees may elect to not apply the lease accounting guidance for short-term leases. A short-term lease is a lease that, at the commencement date, has a lease term of twelve months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise.
- The accounting policy election for all leases, which permits a non-public business entity lessee to use a risk-free discount rate for the lease, determined using a periodic comparable with that of the lease term.

Accounting Pronouncements Not Yet Adopted

Accounting Standards Update 2016-13: Financial Instruments – Credit Losses (Topic 326)

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (ASC Topic 326) that provides guidance on how to measure and report credit losses for financial instruments. The effective date for ASU 2016-13 depends on whether an entity has already adopted the amendments in Update 2016-13, which was issued in January 2019. For entities that have already adopted ASU 2016-13, the amendments in ASU 2022-02, which was issued in November 2023, are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Standards Update 2016-13: Financial Instruments – Credit Losses (Topic 326) (continued)

ASU 2016-13 replaces the incurred loss methodology with the current expected credit loss (CECL) model. Under the CECL model, management must also consider current conditions and reasonable and supportable forecasts of future events and circumstances, in addition to experience, to estimate expected credit losses for certain financial assets, including:

- Financing receivables (loans, for example)
- Held-to-maturity debt securities (available-for-sale debt securities guidance has been amended separately and there is no change to the accounting for trading debt securities)
- Receivables that result from revenue transactions (trade receivables)
- Lease receivables recognized by a lessor

Financial assets excluded from the scope of ASU 2016-13 include:

- Promises to give (pledges) of nonprofit entities
- Loans and receivables between entities under common control
- Defined contribution employee benefit plan loans

ASU 2016-13 provides no threshold for recognition of an impairment allowance. Therefore, organizations must also measure expected credit losses on assets that have a low risk of loss. As a result, trade receivables that are either current or not yet due (which may not require an allowance reserve under current GAAP) may have an allowance for expected credit losses under ASU 2016-13.

The CECL model allows management to select the most appropriate method for estimating its expected credit losses based on the nature of their organization's financial assets. Common methods for estimating expected credit losses include the loss rate method, discounted cash flow method, and probability of default method.

Credit impairment will be recognized as an allowance for credit losses, rather than as a direct write-down of the financial asset.

The Foundation will adopt ASU 2016-13 effective August 1, 2023. Management is currently evaluating the effect of the adoption of ASU 2016-13 on the financial statements. The effect will largely depend on the composition of the Foundation's financial assets subject to CECL and the economic conditions at the time of adoption.

<u>Cash and Cash Equivalents</u>

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Foundation accounts for investments in accordance with FASB ASC 958-320, Accounting for Certain Investments Held By Not-for-Profit Organizations. 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 returns are 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. FASB accounting standards require 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 property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as without donor restrictions 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 with donor restrictions.

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 restrictions at that time.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Maintenance, repairs, and minor renewals are charged to operations as incurred. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The Foundation determines if an arrangement contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Foundation also considers whether its service arrangements include the right to control the use of an asset.

The Foundation's right-of-use assets represent the right to use the underlying assets for the lease term and the lease liabilities represent the Foundation's obligation to make lease payments arising from the leases. The lease commencement date is when the asset is available for use and in possession of the Foundation. Right-of-use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term.

The Foundation recognizes payments for certain leases as expense when incurred including short-term leases with a lease term of 12 months or less and leases with future lease payments that are not considered material to the financial statements. These leases are not included as lease liabilities or right-of-use assets on the statement of financial position.

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of the index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain management will exercise that option. For lease agreements entered into or modified after the adoption of ASC 842, lease and non-lease components are combined.

Finance lease assets (previously referred to as a capital lease before the adoption of ASU 2016-02) are depreciated on a straight-line basis over the lease term and are reported net on the statement of financial position. Interest expense associated with finance leases is recorded based on the incremental borrowing rate.

Revenue

Revenue from Contracts with Customers

The Foundation recognizes revenue in accordance with ASU 2014-09, Revenue from Contracts with Customers (ASC Topic 606). Topic 606 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue (continued)

Revenue from Contracts with Customers (continued)

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 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 sales and there are no additional services required by the Foundation.

Special Events

Special event revenues received are not recognized until the revenue is earned, which is at the time of the event or when the services are provided, and the Foundation does not believe it is required to provide additional goods or services to fulfill its related performance obligation. The recognition of revenue is conditional on the event taking place, as this is the point in time when the performance obligation of hosting the event occurs.

The Foundation records special event revenue equal to contribution revenue less the cost of direct benefits to donors which is included in special event revenue on the statement of activities and changes in net assets.

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.

Government Grants and Assistance

The Foundation receives direct government grants and pass-through funding from various non-profit organizations that are subrecipients of state funded and federal funding sources. As the beneficiary of the Foundation's programs receive the benefit, these transactions are determined not to be exchange transactions.

Contributions and Support

The Foundation recognizes revenue from contributions, including grants, in accordance with ASU 2018-08, Not-For-Profit Entities (ASC Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. In accordance with Topic 958, the Foundation evaluates whether a transfer of assets is (i) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (ii) a contribution.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue (continued)

Contributions and Support (continued)

If the transfer of assets is determined to be an exchange transaction, the Foundation applies guidance under Topic 606, discussed above. If the transfer of assets is determined to be a contribution, the Foundation evaluates whether the contribution is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before the Foundation is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period in which they are received. Unconditional promises are recognized at the estimated present value of future cash flows, discounted at a risk adjusted rate. Conditional promises to give are recognized when the conditions are met. Amortization of the discount is recorded as additional contribution revenue. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior giving history, type of contribution, collection risk, and nature of fund-raising activity.

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 statement of activities as net assets released from restrictions.

Conditional contributions and grants are not recognized until they become unconditional, that is, at the time when the conditions are substantially met. 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 nonfinancial assets (in-kind) are recorded as support in the statement of activities. Such contributions are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. The Foundation's policy is to use contributed nonfinancial assets for programmatic or other purposes unless the assets have no utility consistent with the Foundation's mission. In those instances, the assets would be monetized. (See additional disclosures in Note 9)

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. Services that do not meet the criteria for recognition as a contribution are not reflected in the financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Expenses

It is the policy of the Foundation to ensure all expenses incurred are consistently and appropriately designated to their functional expense categories (program services and management) to allow for an accurate representation of the true program costs of the Foundation.

Functional expenses are allocated as follows:

Direct Expense
Direct expenses relate to one classification and can be directly charged as incurred.

Shared Direct Expense
Shared direct expenses are those that are incurred in support of program work and can be allocated. Examples of shared direct expenses include occupancy, information technology, office expenses, insurance, etc.

Indirect Expense
Indirect expenses are only those expenses that are administrative in function.

Allocation Basis – Payroll
The method of allocating costs for payroll is by the use of time studies. Employees document how time was being spent over a time period to determine, on average, where the employee is spending their time, whether it be program, management or fundraising.

Expense Allocation Process

- Program: Costs that result in the Foundation fulfilling its mission.
- Management: Costs necessary for the operations of the Foundation that are not identifiable with a specific program or fundraising.

This allocation process achieves a complete distribution of expenses to program areas and provides the Foundation with an accurate understanding of true program costs.

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 year ended July 31, 2023 and, therefore, no provision for income taxes has been made.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

The Foundation follows the provision of uncertain tax positions as addressed in FASB Accounting Standards Codification. The Foundation recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. The Foundation believes that it has taken no significant uncertain tax positions for the year ended July 31, 2023. Management believes the Foundation is no longer subject to income tax examinations by applicable taxing jurisdictions for the years prior to July 31, 2019.

Advertising

The Foundation expenses the cost of advertising as incurred. Advertising expense for the year ended July 31, 2023 was $2,554.

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 3. AVAILABILITY AND LIQUIDITY

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

Cash	$ 624,594
Investments	1,502,927
Total financial assets	2,127,521
Less amounts not available to be used within one year:	
Restricted by donor with purpose restrictions	133,089
Restricted by donor with time restrictions held in endowment funds	3,336
Portion of donor-restricted endowment to be retained in perpetuity	503,000
Financial assets available to meet general expenditures over the next twelve months	$ 1,488,096

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 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.

NOTE 3. AVAILABILITY AND LIQUIDITY (continued)

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 manage the cash available to meet current liquidity needs.

To help manage unanticipated liquidity needs, the Foundation can liquidate investments without donor restrictions totaling approximately $997,018 at any time.

NOTE 4. 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. As of July 31, 2023, $368,390 exceeded 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 5. FAIR VALUE MEASUREMENTS

The Foundation's investments consist of brokered certificates of deposit (CD) maturing within one to two years from July 31, 2023 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 Edwards Jones and insured by the FDIC.

The following table represents the financial instruments carried at fair value as of July 31, 2023:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Fixed income CD's	$ 1,007,288	$ 1,004,306	$ (2,982)
Investments, current			
Fixed income CD's			$ 599,552
Investments, non-current			
Fixed income CD's			397,466
Total investments			$ 997,018

NOTE 6. PROPERTY AND EQUIPMENT

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

Buildings and leasehold improvements	$	3,106,479
Equipment, furniture and fixtures		324,740
Automobiles		339,521
Other		15,265
		3,786,005
Less accumulated depreciation		1,813,084
		1,914,365
Construction in progress		377,149
Land		1,376,759
	$	3,726,829

Depreciation expense for the year ended July 31, 2023 was $129,095.

NOTE 7. 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 8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following as of July 31, 2023:

Accounts payable	$	414,711
Accrued payroll expenses		55,275
Accrued expenses		14,873
Miscellaneous other payables		5,069
Total accounts payable and accrued expenses	$	491,986

NOTE 9. CONTRIBUTED NONFINANCIAL ASSETS

Revenues from contributions of nonfinancial assets recognized within the statement of activities were as follows for the year ended July 31, 2023:

Nonfinancial Asset	2023	2022	Usage in programs/ activities	Donor imposed restrictions	Fair value techniques and inputs
Food	$ 3,703,036	$ 2,628,584	Poor and homeless	None	
Clothing, household and other	613,929	118,684	Poor and homeless	None	Thrift shop value
Total	$ 4,316,965	$ 2,747,278			

All gifts are recognized in accordance with donor restrictions, when applicable. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions. The Foundation did not sell contributed nonfinancial assets and utilized them in program use.

NOTE 10. OPERATING LEASE

The Foundation leases space for its thrift shop and administrative office space under operating lease agreements expiring on various dates through January 2027. Base monthly rental payments are $16,230. The lease agreements do not contain any material residual value guarantees.

The Foundation has elected the practical expedient to account for the lease and non-lease components as a single lease component (e.g. maintenance and operating services). Therefore, the lease payments used to measure the lease liability include all of the fixed consideration in the contract. All variable payments not based on a market rate or an index are expensed as incurred.

The Foundation determines if an arrangement is or contains a lease at contract inception. The Foundation recognizes a right-of-use asset and a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the unpaid lease payments at the lease commencement date. Key estimates and judgments include how the Foundation determines the discount rate, the lease term, and the lease payments. When the discount rate implicit in a lease is not readily determinable, the Foundation calculates the lease liability using the risk-free rate commensurate with the term of the lease.

The following summarizes the operating and finance right-of-use assets as of July 31, 2023:

Operating lease, right-of-use asset	$ 787,266
Accumulated amortization	(227,840)
	$ 559,426

NOTE 10. OPERATING LEASE (CONTINUED)

The amounts due on operating lease liabilities are as follows as of July 31, 2023:

Year Ending July 31,		
2024	$	174,029
2025		174,717
2026		155,035
2027		75,537
2028		-
Thereafter		-
Total lease payments		579,318
Less amount representing imputed interest		(16,631)
Present value of lease liability	$	562,687

Right-of-use operating lease cost was $190,553 for the year ended July 31, 2023 and is included with occupancy expenses in the statement of functional expenses.

Supplemental statement of financial position information related to leases is as follows for the year ended July 31, 2023:

Weighted average remaining lease term – operating lease	2.84 years
Weighted average discount rate – operating lease	2.94%

NOTE 11. ENDOWMENT

The Foundation's endowment contains 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 identified a donor-imposed requirement to preserve the fair value of the original donation as of the date of the donations. As a result, 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.

NOTE 11. ENDOWMENT (continued)

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the fund
2) The purposes of the Foundation and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the Foundation
7) The investment policies of the Foundation

The endowment net assets composition by type of fund consists of the following as of July 31, 2023:

Donor-restricted endowment funds	$	506,336

Changes in endowment net assets consist of the following as of July 31, 2023:

Endowment net assets, beginning of year	$	552,503
Investment income		3,333
Appropriated for expenditure		(49,500)
Endowment net assets, end of year	$	506,336

The following reflects the Foundation's endowment net asset composition by fund type as of July 31, 2023:

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		3,336
Total endowment funds classified as net assets with donor restrictions	$	506.336

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, 2023.

NOTE 11. ENDOWMENT (continued)

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 endowment. In order to meet this objective, the endowment investment portfolio is structured to achieve a compounded annual return commensurate with the portfolio's market-related index. The market-related index is made up of broad indices that are representative of the asset classes in which the portfolio is invested and is weighted in the same percentages as the portfolio weightings of these asset classes.

NOTE 12. RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions were available for the following as of July 31, 2023:

Purpose restricted:	
Essential services	$ 27,979
Outreach	13,208
Recovery	16,995
Golf tournament	37,600
Other programs	31,351
Time restricted:	
Available for appropriation from endowment funds	3,336
Permanent endowments:	
Corpus value	503,000
Total net assets with donor restrictions	$ 633,469

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

Satisfaction of purpose restrictions	$ 555,056
Appropriation for expenditure	49,500
	$ 604,556

NOTE 13. 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 14. 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 15. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through October 10, 2024 the date which the financial statements were available to be issued.

On May 15, 2024, the Board of Directors authorized a change in the fiscal year-end to June 30. The new fiscal year-end was effective beginning June 30, 2024.