WeHOPE

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2020 AND 2019

WeHOPE

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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* * * *

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Scott K. Smith
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Board of Directors
WeHOPE
San Francisco, California

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of WeHOPE, a California nonprofit public benefit corporation, which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WeHOPE as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated February 9, 2022 on our consideration of WeHOPE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of WeHOPE's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering WeHOPE's internal control over financial reporting and compliance.

Lindquist, von Husen and Joyce LLP

February 9, 2022

WeHOPE

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Current assets:		
Cash	$ 505,131	$ 528,323
Receivables		
Grants (Note 4)	1,392,839	603,274
Related-party (Note 3)	58,019	33,273
Other	-	1,349
Prepaid expenses	1,600	12,513
Total current assets	1,957,589	1,178,732
Client funds held in trust	33,434	59,873
Property and equipment – net (Note 5)	2,572,465	2,303,381
Other assets	69,580	2,000
Total assets	$ 4,633,068	$ 3,543,986
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 420,626	$ 347,102
Client funds held in trust	32,555	57,036
Deferred revenue	30,081	12,380
Line of credit	140	140
Notes payable – current portion (Note 7)	48,892	12,114
Total current liabilities	532,294	428,772
Notes payable – net of current portion (Note 7)	737,642	787,287
Paycheck Protection Program note payable (Note 8)	298,402	-
Total liabilities	1,568,338	1,216,059
Net assets:		
Without donor restrictions	2,236,007	1,658,393
With donor restrictions (Note 9)	828,723	669,534
Total net assets	3,064,730	2,327,927
Total liabilities and net assets	$ 4,633,068	$ 3,543,986

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

WeHOPE

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*	*Without Donor Restrictions*	*With Donor Restrictions*	*Total*
Support and revenue:						
Grants and contributions	$ 5,785,770	$ 297,298	$ 6,083,068	$ 2,954,881	$ 144,865	$ 3,099,746
Interest	13	-	13	1,179	-	1,179
Other income	18,958	-	18,958	17,520	-	17,520
Net assets released from restriction (Note 9)	138,109	(138,109)	-	203,368	(203,368)	-
Total support and revenue	5,942,850	159,189	6,102,039	3,176,948	(58,503)	3,118,445
Expenses:						
Program services	4,506,488	-	4,506,488	2,219,392	-	2,219,392
Management and general	644,061	-	644,061	544,446	-	544,446
Fundraising	214,687	-	214,687	46,772	-	46,772
Total expenses	5,365,236	-	5,365,236	2,810,610	-	2,810,610
Change in net assets	577,614	159,189	736,803	366,338	(58,503)	307,835
Net assets, beginning of year	1,658,393	669,534	2,327,927	1,292,055	728,037	2,020,092
Net assets, end of year	$ 2,236,007	$ 828,723	$ 3,064,730	$ 1,658,393	$ 669,534	$ 2,327,927

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

WeHOPE

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			
	Program Services	*Management and General*	*Fundraising*	*Total*
Salaries and related expenses	$ 2,906,844	$ 530,677	$ 176,892	$ 3,614,413
Supplies	520,103	40,008	13,336	573,447
Services and professional fees	287,424	12,444	4,148	304,016
Depreciation	239,020	18,386	6,129	263,535
Repairs and maintenance	137,154	10,550	3,517	151,221
Insurance	83,582	6,429	2,143	92,155
Utilities	63,520	4,886	1,629	70,035
Rent	44,186	3,399	1,133	48,718
Telephone and internet	27,916	2,147	716	30,779
Travel, meals, and entertainment	18,685	1,437	479	20,601
Interest	11,153	858	286	12,297
License and permit fees	1,611	124	41	1,776
Training and conferences	1,605	124	41	1,770
Miscellaneous	163,685	12,591	4,197	180,473
Total expenses	$ 4,506,488	$ 644,061	$ 214,687	$ 5,365,236

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

WeHOPE

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2019			
	Program Services	*Management and General*	*Fundraising*	*Total*
Salaries and related expenses	$ 1,284,209	$ 379,032	$ 29,180	$ 1,692,421
Supplies	245,700	23,625	4,725	274,050
Services and professional fees	200,397	50,280	2,681	253,358
Depreciation	152,064	6,200	2,777	161,041
Repairs and maintenance	95,268	18,206	1,991	115,465
Utilities	51,693	4,970	994	57,657
Insurance	42,352	2,801	792	45,945
Travel, meals, and entertainment	31,881	3,065	613	35,559
Telephone and internet	22,960	2,208	441	25,609
License and permit fees	17,422	1,675	335	19,432
Interest	2,420	9,730	213	12,363
Rent	11,891	-	209	12,100
Training and conferences	6,027	580	116	6,723
Miscellaneous	55,108	42,074	1,705	98,887
Total expenses	$ 2,219,392	$ 544,446	$ 46,772	$ 2,810,610

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

WeHOPE

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 736,803	$ 307,835
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	263,535	161,041
(Increase) decrease in assets:		
Grant receivable	(789,565)	(446,743)
Related-party	(24,746)	(28,800)
Other receivable	1,349	126
Prepaid expenses	10,913	(8,409)
Client funds held in trust – cash	26,439	(1,267)
Other assets	(67,580)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	73,524	177,044
Client funds held in trust	(24,481)	(1,965)
Deferred revenue	17,701	10,000
Net cash provided by operating activities	223,892	168,862
Cash flows from investing activity:		
Additions to property and equipment	(532,619)	(464,208)
Net cash used in investing activity	(532,619)	(464,208)
Cash flows from financing activities:		
Paycheck Protection Program loan proceeds	298,402	-
Payments of notes payable	(12,867)	(11,002)
Net cash provided by (used in) financing activities	285,535	(11,002)
Net decease in cash	(23,192)	(306,348)
Cash, beginning of year	528,323	834,671
Cash, end of year	$ 505,131	$ 528,323

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

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

WeHOPE ("the Organization"), a California nonprofit public benefit corporation, was founded in 1999 with a mission to help people become healthy, employed and housed using innovative solutions.

WeHOPE helps unhoused, homeless and those at-risk in rebuilding their lives through a Supportive Housing Program customized to the needs of each individual. WeHOPE's programs include:

Mobile Homeless Services:

Dignity on Wheels (DOW), a mobile hygiene service, provides free showers and laundry services to the homeless throughout the Bay Area.

Vehicle Safe Parking provides safe overnight parking, toilets, showers, laundry services, meals and comprehensive case management to assist in securing permanent supportive housing.

Emergency Food and Shelter:

WeHOPE Shelter is a 24-hour facility located in East Palo Alto that provides emergency and transitional housing for homeless individuals. The program provides hot meals, shelter beds, access to medical care, hot showers, laundry service, transportation and comprehensive case management.

Family Harvest provides free healthy food to individuals and families in need.

Job Training and Life Skills:

HOPE Jobs provides job training and certification programs designed to provide dignified employment and a livable wage to those facing underemployment or unemployment throughout the Bay Area. HOPE Jobs provides free certification courses taught by nationally certified instructors within their professional industry.

Dignity @Work is a re-entry program that helps the formerly incarcerated individuals successfully transition into society with proper education, support and resources.

The Organization is vulnerable to inherent risks associated with revenue that is substantially dependent on governmental funding, public support and contributions. The continued growth and well-being of the Organization is contingent upon successful achievement of its long-term revenue-raising goals.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

The Organization uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets, as applicable: net assets without donor restrictions and net assets with donor restrictions.

- Net assets without donor restrictions include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization.

- Net assets with donor restrictions include those assets subject to donor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. When a donor 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*. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity.

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recognized when the donor makes a promise to give; that is, in substance, an unconditional promise. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are recognized when the conditions on which they depend are substantially met. Consequently, at December 31, 2020, contributions of approximately $5,804,000 was not recognized in the accompanying statement of activities because the condition on which they depend has not yet been met. Contributions are recorded at their fair value as support without donor restrictions or support with donor restrictions, depending on the absence or existence of donor-imposed restrictions as applicable. 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 are reported in the statement of activities as net assets released from restrictions.

Government contracts, which are funded on a reimbursement basis, are shown as revenue without donor restriction.

Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. The Organization occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation limit. The uninsured cash balance was approximately $253,000 as of December 31, 2020. The Organization has not experienced any losses in such accounts.

Receivables

Grants and other receivable within one year are recorded at net realizable value. Grants receivable expected to be received in the future years are recorded at present value of their estimated cash flows. No allowance for uncollectible accounts have been provided since the receivables are all deemed to be collectible.

Client Funds Held in Trust

The Organization is holding client funds in trust in separate bank accounts. The total amount was $33,434 and $59,873 as of December 31, 2020 and 2019, respectively.

Property and Equipment

Property and equipment is stated at cost of acquisition, construction or fair value if donated. Assets costing at least $2,000 are capitalized. The cost of maintenance and repairs is charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets.

The useful lives of the assets are estimated as follows:

Building and improvements	7 to 30 years
Furniture and equipment	3 to 7 years
Vehicles	5 years

Income Taxes

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization's federal and state information tax returns for the years 2016 through 2019 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

Functional Expenses Allocation

The costs of providing program services and supporting services are summarized on a functional basis in the statement of activities and statement of functional expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources. Directly identifiable expenses are charged to programs and supporting services.

Subsequent Events

Management has evaluated subsequent events through February 9, 2022, the date on which the financial statements were available to be issued.

NOTE 3 – RELATED-PARTY TRANSACTIONS

All related party transactions for the years ending December 31, 2020 and 2019 occurred between the Organization and Action Associates, a company owned by an immediate family of its board member and founder.

In September 2018, the Organization purchased the commercial property at 1836 and 1854 Bay Road from Action Associates for $1,600,000. The property was purchased with a tenancy in common agreement whereas the Organization and Action Associates each owns an undivided interest in the property. The property is comprised of two building structures: the 1836 Bay Road building with approximately 19,800 square feet currently occupied by Action Associates, which is referred to as the applicable owner of the 1836 Bay Road building per tenancy in common agreement; and the 1854 Bay Road building with approximately 9,900 square feet currently occupied by the Organization, which is referred to as the applicable owner of the 1854 Bay Road building per tenancy in common agreement. The percentage of undivided interest is based on the square footage of each building. The undivided interest of the Organization and Action Associate is 33% and 67%, respectively (see Note 5). The co-owners are currently in the process of subdividing the parcel to bisect the southern portion of the property that includes the 1854 Bay Road building from the northern portion of the property that includes 1836 Bay Road building.

Related-party transactions are summarized as follows:

Nature of transaction:

	2020	2019
Facility lease [1]	$ 48,718	$ 12,100
Property taxes and insurance [2]	58,019	33,273

(1) The Organization leases its recuperative care facility at 1836 Bay Road from Action Associates under a five-year agreement that expired in July 2019. In August 2019, the five-year agreement was amended to extend the terms of the lease to September 2024. Recuperative care facility rent expense was $48,718 and $12,100 in 2020 and 2019, respectively (see Note 11).

(2) The Organization pays the property taxes and insurance of the property and receives reimbursement from Action Associates for its share of the costs. The costs are prorated based on the square footage of the buildings. The full amount is included in related-party receivable as of December 31, 2020 and 2019.

NOTE 4 – GRANTS RECEIVABLE

Grants receivable are summarized as follows:

	2020	2019
San Mateo County Human Services Agency	$ 306,933	$ 90,884
City of Oakland	231,298	80,231
City of San Jose	252,655	175,589
City of East Palo Alto	116,833	92,973
Stanley and Joyce Black Family Foundation	100,000	-
County of Santa Clara	67,232	48,895
Department of Homelessness and Supportive Housing	66,945	-
Rammler's Family Fund	50,000	100,000
County of San Mateo HEAP Funding	45,785	8,077
Amgen Foundation	40,000	-
City of Berkeley	35,554	-
Emergency Food and Shelter Program	24,000	-
County of Alameda	18,480	-
Vehicle Triage Center	10,236	-
Mountain View Community Services Agency	8,233	2,625
Fidelity Charitable	4,250	1,000
Homefirst Services of Santa Clara County	3,000	3,000
Others	11,405	-
Grants receivable	$ 1,392,839	$ 603,274
Amounts due in:		
Less than one year	$ 1,372,839	$ 553,274
One year or more	$ 20,000	$ 50,000

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2020	2019
Land	$ 843,478	$ 843,478
Buildings and improvements [1]	968,815	950,473
Furniture, fixtures and equipment	1,398,564	927,236
	3,210,857	2,721,187
Less: accumulated depreciation	(681,341)	(417,806)
	2,529,516	2,303,381
Construction in progress	42,949	-
Total property and equipment	$ 2,572,465	$ 2,303,381

[1] The Organization purchased an undivided interest in real property located at 1836 and 1854 Bay Road in September 2018 for $1,600,000 (see Note 3). The property is comprised of two building structures: the 1836 Bay Road building with approximately 19,800 square feet currently occupied by Action Associates, and the 1854 Bay Road building with approximately 9,900 square feet currently occupied by the Organization. The 1836 Bay Road building is divided into eight units that are currently under various leases. The lease contracts of these units are with Action Associate therefore no rental income is recognized by the Organization.

NOTE 6 – LINE OF CREDIT

In September 2018, the Organization obtained a revolving line of credit in the amount of $100,000, of which $140 was outstanding at December 31, 2020 and 2019. Advances on the line of credit are payable monthly and carry an initial interest rate of 6.25% per annum. The line of credit is secured by various assets of the Organization as specified in the commercial security agreement and matures in September 2023.

NOTE 7 – NOTES PAYABLE

Notes payable consist of the following:

	2020		2019	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
Avid Bank, in the original amount of $270,000, bears interest from 3.75% to 5.50%. Payments of principal and interest of $1,396 due monthly commencing October 2018 and $1,602 commencing October 2025, and balloon payment of $196,723 in September 2028. Interest expense was $9,956 and $9,943 in 2020 and 2019, respectively.	$ -	$ 254,323	$ -	$ 261,127

	2020		2019	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
County of San Mateo, in the original amount of $490,673, non-interest bearing loan. Payments of principal are deferred and all outstanding principal will be forgiven at a rate of 10% of the loan amount every three years until September 2048.	-	490,673	-	490,673
LENDonate CA, LLC, in the original amount of $52,500, bears interest at 4.85% per annum. Payments of principal and interest in the amount of $553 due monthly commencing October 2018 and $545 commencing May 2020, and balloon payment of $38,767 in October 2021. Interest expense was $2,341 and $2,420 in 2020 and 2019, respectively.	-	41,538	-	47,601
Total	-	786,534	-	799,401
Less: current portion	-	(48,892)	-	(12,114)
Long-term portion	$ -	$ 737,642	$ -	$ 787,287

Principal payments on notes payable for the next five years are subject to changes in net cash flow and are estimated as follows:

2021	$ 48,892
2022	7,635
2023	7,926
2024	8,228
2025	8,216

NOTE 8 – PAYCHECK PROTECTION PROGRAM

In April 2020, the Organization requested and received loan funds totaling $298,402 from the U.S. Small Business Administration (SBA) under the Paycheck Protection Program (PPP), a program authorized under the CARES Act and the PPP Flexibility Act, to support ongoing operations and to retain workers and maintain payroll. Loan funds are fully guaranteed by SBA and eligible for forgiveness if used on eligible costs for a covered period after loan disbursement, including the requirement to maintain staff and compensation level. The PPP loan bears simple interest at 1% per year. All remaining principal and accrued interest are payable in April 2022 unless forgiven. SBA issued a judgement on April 15, 2021 of full forgiveness for the PPP loan.

NOTE 9 – NET ASSETS

Net assets with donor restrictions are for the following purpose:

	December 31, 2019	*Contributions*	*Releases from Restrictions*	*December 31, 2020*
Dignity at Work	$ 148,082	$ -	$ (32,791)	$ 115,111
Capital Campaign – building purchase and addition of recuperative unit	521,452	65,239	-	586,691
COVID-19 Relief	-	229,559	(103,354)	126,205
Mobile Homeless Services	-	2,500	(1,784)	716
	$ 669,534	$ 297,298	$ (138,109)	$ 828,723

	December 31, 2018	*Contributions*	*Releases from Restrictions*	*December 31, 2019*
Dignity at Work	$ 62,703	$ 143,865	$ (58,486)	$ 148,082
Capital Campaign – building purchase and addition of recuperative unit	665,334	1,000	(144,882)	521,452
	$ 728,037	$ 144,865	$ (203,368)	$ 669,534

NOTE 10 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restriction limiting their use, within one year of the statement of financial position date comprise the following:

	2020	2019
Financial assets at end of year available within one year:		
Cash	$ 505,131	$ 528,323
Grants receivable	1,392,839	603,274
Related-party receivable	58,019	33,273
Other receivable	-	1,349
	1,955,989	1,125,196
Less financial assets not available for general expenditures:		
Cash subject to expenditure for specific purpose	(828,723)	(669,534)
Financial assets available for general expenditures within one year	$ 1,127,266	$ 496,685

Financial assets include amounts that will be used to pay accounts payable, accrued expenses and other payables from operating cash flow, if any, in the subsequent year. An amount of $828,723 and $669,534 of the financial assets in 2020 and 2019, respectively, is subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated statement of financial position date. As part of its liquidity management, the Organization monitors liquidity in order to fulfill its operating cash needs. The Organization has various sources that provide liquidity during the year such as contract revenue, program fees, interest income, and grants and contributions. The Organization operates within a budget and anticipates collecting sufficient revenue to cover general expenditures.

NOTE 11 – OPERATING LEASES

Lease Income

The Organization leases a portion of its premises to Saint Samuel Church under a five-year agreement that expires in December 2024. The Organization also receives rental income from the use of its premises. Rental income was $5,800 and $10,300 in 2020 and 2019, respectively.

Future minimum lease payments to be received are estimated as follows:

Year Ending December 31,	
2021	$ 6,000
2022	6,000
2023	6,000
2024	6,000
2025	-
	$ 24,000

Lease Commitments

The Organization leases its recuperative care facility from Action Associates, under a five-year agreement that expired in July 2019. In August 2019, the five-year agreement was amended to extend the terms of the lease to September 2024. Rent expense was $48,718 and $12,100 in 2020 and 2019, respectively.

Future minimum lease payments are estimated as follows:

Year Ending December 31,	
2021	$ 42,750
2022	17,150
2023	12,000
2024	9,000
2025	-
	$ 80,900

NOTE 12 – COMMITMENTS, CONTINGENCIES AND OTHER

County of San Mateo Forgivable Loan

In September 2018, the Organization purchased an undivided interest in the commercial property located at 1836 and 1854 Bay Road with loan proceeds from County of San Mateo in the amount of $490,673. The loan is secured by the property and bears no interest. Repayment of principal shall be deferred and the outstanding loan balance shall be decreased by 10% after every three years throughout the life of the loan which is 30 years, as long as the facility is operating as an emergency shelter in compliance with the terms of the regulatory agreement.

Fiscal Sponsorship

The Organization entered into a fiscal sponsorship with the Interfaith Council of Alameda County for Safe Parking Program. The Organization is authorized to collect dues, contributions and grants to cover associated expenses. The total revenue and corresponding expense for Safe Parking Program was $125,648 and $97,857 in 2020 and 2019, respectively.

COVID-19 Pandemic

The emergence and spread of the coronavirus (COVID-19) in 2020 has affected businesses and economic activities in the U.S. and beyond. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the effects on individual and government contributors, service providers, employees, and business partners, and changes in business practices, all of which are uncertain and cannot be determined at this time.

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Board of Directors
WeHOPE
San Francisco, California

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of WeHOPE, which comprise the statements of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 9, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered WeHOPE's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WeHOPE's internal control. Accordingly, we do not express an opinion on the effectiveness of WeHOPE's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weakness and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control to be a significant deficiency in internal control over financial reporting.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether WeHOPE's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

WeHOPE's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindquist, von Husen and Joyce LLP

February 9, 2022

Finding No. 2020-1 – Accounting for Grants Contributions

Accounting principles generally accepted in United States of America require contributions to be recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. If donors stipulate time or purpose restrictions, contributions are recorded at their fair value as support with donor restrictions.

Unconditional promises to give are recognized as contribution revenue in the period made by the donor. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend on have been met.

During our testing of revenue account balance, we noted that the Organization received a significant amount under a multi-year grant which was subject to stipulations on the timing, uses and other conditions required by the donor. The grant totaling $150,000 was improperly recognized as conditional grant, whereas only $50,000 was recognized as contribution revenue in 2020 . Upon review of the grant agreement, the grant stipulations appear to be restrictions or timing of payments rather than conditions. Therefore, the total contribution amount should have been recognized as contributions revenue for the fiscal year ended December 31, 2020. Due to improper recognition of contribution revenues, a material adjustment was made to increase the revenue by 100,000.

Recommendation:

We recommend that management strengthen its understanding relating to the accounting standards for contributions and enhance its current policies and procedures by ensuring that a thorough review of contributions received are done and revenues are properly recognized.

Cause:

Proper procedures were not implemented to handle the increased revenue (i.e., grants, donations, service, etc.) at the onset of COVID-19. Grant award letters and contracts were received and maintained by various departments whereas on occasions the transaction posted to the GL coded without corresponding documentation. Staffing issues prevented such procedures to be implemented.

Management's Response:

We agree with the finding. Starting September 2021, we incorporated and communicated changes to our policy and procedures to ensure all grant award acknowledgements are thoroughly reviewed by the controller and processed accordingly. The Grant Management Matrix (GMM) is now also maintained, and the appropriate documents are uploaded to QuickBooks Online. The Interim Development Director (VP of Operations) and the Controller started reviewing all incoming grants to confirm the course of action for the revenue type. The GMM will be used to assign a project type account which links to the proper accounting procedure.

Finding No. 2018-1 – Financial Accounting and Reporting Process

During our 2018 audit, we had noted that the Organization's financial reporting process did not have adequate internal controls to ensure the accuracy of the financial statements. This includes properly identifying and correcting reporting errors, maintaining accurate and updated general ledger and having adequate supporting documentations. Due to this, material adjustments were made to the financial statements as follows:

- **Net Asset Beginning Balance**

  During our 2018 audit, we had noted that the net asset beginning balance did not agree to the ending balance reported in the 2017 audited financial statements. Additionally, the Organization was not able to directly identify the transactions that caused the variance. Due to this, the net asset beginning balance required an adjustment in the amount of $24,765 and recorded as miscellaneous revenue.

- **Accrued Vacation Liability**

  During our 2018 audit of accrued payroll liabilities, we had noted that the accrued vacation was not recorded correctly in the general ledger. The organization initially recorded $50,465 of accrued vacation liability, however this balance appeared to be the accrued payroll salaries for the month ending December 2018. An adjustment of $5,584 was made to properly record the accrued vacation liability in 2018.

  Likewise, the prior year accrued vacation was also not recorded properly, resulting into a prior period year adjustment of $43,284 to recognize the accrued vacation liability.

- **Property and Equipment**

  In 2018, the Organization purchased a commercial property from Action Associates, a company owned by an immediately family of its board member and president Pastor Paul Bains. The property was purchased by the Organization for $1,600,000 and was allocated to land and building at 25% and 75% of purchased price, respectively. However, upon further inquiry, it was noted that the Organization did not have a proper support for the basis of the allocation. We requested a copy of the property tax assessment to use as the basis and recalculated the allocation. An adjustment of approximately $400,000 was made to properly allocate the purchase price between land and building.

- **Inadequate Supporting Documentation**

  During our 2018 audit, we had noted several transactions were recorded but did not have adequate supporting documentation in the Organization's records. Likewise, we also had noted considerable delay in providing supporting documentation during our audit process.

  Recommendation:

  We had recommended that Management should strengthen its existing internal controls over financial reporting by requiring a thorough review of the financial reports to ensure that balances are recorded accurately. This should include the following:

  - Management should reconcile the general ledger balances with any related underlying schedules on a quarterly and year-end basis to ensure the accuracy of the general ledger balances.

  - Management should develop a process whereby management keeps track of the balances of the employees' accrued vacation and perform a review and analysis of the accrued vacation balance to ensure that the amounts are recorded accurately in the financial statements.

- Transactions recorded in the accounting system should have adequate supporting documentation. Management should improve its existing process on maintain and retaining records. The process of filing, storing and retrieving documents should be done in a systematic manner so that they may be easily located when needed.

Status:

During the 2020 audit, we had likewise proposed material adjustments to the books. We continue to make the above recommendations.

Management's Response:

As of the date of this report, the prior year recommendations have been implemented. The management hired adequate staff to be part of the finance team. The hiring of a new controller and additional finance staff have addressed the issues on internal controls related to financial accounting and reporting including thorough review of the financial reports, reconciliation of general ledger balances, structured and centralized system of maintaining, filing and retaining records, and proper segregation of duties.