WeHOPE

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEAR ENDED DECEMBER 31, 2018

WeHOPE

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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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 statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2018, 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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated January 28, 2021 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

January 28, 2021

WeHOPE

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

ASSETS

Current assets:	
Cash	$ 834,671
Receivables	
Grants (Note 4)	156,531
Related-party (Note 3)	4,473
Other	1,475
Prepaid expenses	4,104
Total current assets	1,001,254
Client funds held in trust	58,606
Property and equipment – net (Note 5)	2,000,214
Other assets – lease deposit	2,000
Total assets	$ 3,062,074

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	$ 170,058
Client funds held in trust	59,001
Deferred revenue	2,380
Line of credit	140
Notes payable – current portion (Note 7)	10,854
Total current liabilities	242,433
Notes payable – net of current portion (Note 7)	799,549
Total liabilities	1,041,982
Net assets:	
Without donor restrictions	1,292,055
With donor restrictions (Note 8)	728,037
Total net assets	2,020,092
Total liabilities and net assets	$ 3,062,074

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

WeHOPE

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Support and revenue:			
Grants and contributions	$ 1,692,295	$ 1,604,125	$ 3,296,420
Special events	7,580	-	7,580
Less: cost of special events	(10,201)	-	(10,201)
Interest	1,349	-	1,349
Other income	32,018	-	32,018
Net assets released from restriction (Note 8)	876,088	(876,088)	-
Total support and revenue	2,599,129	728,037	3,327,166
Expenses:			
Program services	1,691,649	-	1,691,649
Management and general	107,655	-	107,655
Fundraising	48,865	-	48,865
Total expenses	1,848,169	-	1,848,169
Change in net assets	750,960	728,037	1,478,997
Net assets, beginning of year, as restated (Note 10)	541,095	-	541,095
Net assets, end of year	$ 1,292,055	$ 728,037	$ 2,020,092

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

WeHOPE

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services	*Management and General*	*Fundraising*	*Total*
Salaries and related expenses	$ 1,064,799	$ 54,250	$ 29,401	$ 1,148,450
Supplies	156,039	10,932	4,771	171,742
Services and professional fees	126,979	11,120	3,946	142,045
Depreciation	77,501	3,838	2,324	83,663
Repairs and maintenance	54,139	6,433	1,731	62,303
Rent	56,292	-	1,608	57,900
Utilities	49,641	5,824	1,585	57,050
Insurance	28,779	3,558	924	33,261
Miscellaneous	23,437	3,024	756	27,217
Telephone and internet	21,362	2,506	682	24,550
License and permit fees	15,664	2,021	505	18,190
Travel, meals, and entertainment	11,311	1,460	365	13,136
Training and conferences	5,283	682	170	6,135
Interest	423	2,007	97	2,527
Total expenses as shown on the statement of activities	1,691,649	107,655	48,865	1,848,169
Cost of special events	10,201	-	-	10,201
Total expenses	$ 1,701,850	$ 107,655	$ 48,865	$ 1,858,370

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

WeHOPE

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

Cash flows from operating activities:	
Change in net assets	$ 1,478,997
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	83,663
(Increase) decrease in assets:	
Grant receivable	79,248
Related-party	(4,473)
Other receivable	7,575
Prepaid expenses	(2,132)
Client funds held in trust – cash	12,960
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	54,355
Client funds held in trust	(12,948)
Deferred revenue	2,380
Net cash provided by operating activities	1,699,625
Cash flows from investing activity:	
Purchase of property and equipment	(1,777,789)
Net cash used in investing activity	(1,777,789)
Cash flows from financing activities:	
Advances from line of credit	140
Proceeds from notes payable	810,403
Net cash provided by financing activities	810,543
Net increase in cash	732,379
Cash, beginning of year	102,292
Cash, end of year	$ 834,671

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 2000 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 adopted the Accounting Standard Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires reporting 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 restrictions 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. 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 $313,000 as of December 31, 2018. 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 of $58,606 is included in cash in the Statements of Financial Position.

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	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 2014 through 2017 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 January 28, 2021, the date on which the financial statements were available to be issued.

NOTE 3 – RELATED-PARTY TRANSACTIONS

All related party transactions for the year ending December 31, 2018 occurred between the Organization and Action Associates, a company owned by an immediate family of its board member and founder. Related-party transactions are summarized as follows:

Nature of transaction:

Purchase of property (1)	$ 1,600,000
Facility lease (2)	57,900
Property taxes and insurance (3)	4,473

(1) 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.

(2) The Organization previously leased its shelter facility at 1854 Bay Road from Action Associates under an operating lease that expired in July 2019. The Organization purchased the facility to eliminate future rent payments. Shelter facility rent expense was $45,900 in 2018. The Organization also leases its recuperative care facility at 1836 Bay Road from Action Associates under a five-year agreement that expired in July 2019. Recuperative care facility rent expense was $12,000 in 2018 (see note 10).

(3) 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, 2018.

NOTE 4 – GRANTS RECEIVABLE

Grants receivable are summarized as follows:

San Mateo County Human Services Agency	$	102,084
City of East Palo Alto		30,375
City of San Jose		15,522
LifeMoves		7,425
Mountain View Community Services Agency		1,125
Total grant receivable	$	156,531

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

Land	$	843,478 [1]
Buildings and improvements [2]		768,050 [1]
Furniture, fixtures and equipment		645,451
		2,256,979
Less: accumulated depreciation		(256,765)
Total property and equipment	$	2,000,214

(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). A capital campaign was held to raise money for the purchase of the property and make capital improvements to existing building including adding a respite care unit. The Organization received capital grants totaling $1,465,000 from various foundations as part of its capital campaign and obtained loans totaling $760,673 to purchase the property. The remaining capital funds will be used for the addition of respite care unit at the 1854 Bay Road building.

(2) The purchased property is comprised of two building structures: 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 with monthly rent ranging from $400 to $18,757, totaling $32,557 per month. 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, 2018. 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:

	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 $2,104 in 2018.	$ -	$ 267,913
County of San Mateo, in the original amount of $490,673, non-interest bearing loan. Payments of principal is 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
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 $423 in 2018.	-	51,817
Total	-	810,403
Less: current portion	-	10,854
Long-term portion	$ -	$ 799,549

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

2019	$ 11,040
2020	12,114
2021	49,925
2022	7,635
2023	7,926

NOTE 8 – NET ASSETS

Net assets with donor restrictions are for the following purpose:

	December 31, 2017	*Contributions*	*Releases from Restrictions*	*December 31, 2018*
Dignity at Work	$ -	$ 91,125	$ (28,422)	$ 62,703
Capital Campaign – building purchase and addition of recuperative unit	-	1,513,000	(847,666)	665,334
	$ -	$ 1,604,125	$ (876,088)	$ 728,037

NOTE 9 – 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 as of December 31, 2018:

Financial assets at end of year available within one year:	
Cash	$ 834,671
Grants receivable	156,531
Related-party receivable	4,473
Other receivable	1,475
	997,150
Less financial assets not available for general expenditures:	
Cash subject to expenditure for specific purpose	(728,037)
Financial assets available for general expenditures within one year	$ 269,113

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 $728,037 of the financial assets 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 anticipate collecting sufficient revenue to cover general expenditures.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

Certain error in previously issued financial statements was discovered and corrected in 2018 which resulted in a decrease in the balance of net assets without donor restrictions of $43,284 as of December 31, 2018. Details follow:

	Net Assets Without Donor Restrictions
Balance, December 31, 2017, as previously reported	$ 584,379
Adjustment for understatement of accrued payroll liabilities [1]	(43,284)
Balance, December 31, 2018, as restated	$ 541,095

[1] Accrued vacation liability was not recorded in 2017. Accordingly, an adjustment of $43,284 was made in 2018 to recognize accrued vacation.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

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.

Lease Commitments

The Organization leased its shelter facility from Action Associates under a five-year agreement that expired in July 2017. In August 2017, the five-year agreement was amended to extend the terms of the lease to July 2019. In September 2018, the Organization purchased the facility to eliminate future rent payments. Facility rent expense was $45,900 in 2018.

The Organization also leases its recuperative care facility from Action Associates, under a five-year agreement that expired in July 2019. The Organization has the option to renew the lease for an additional term of five years. Rent expense was $12,000 in 2018. Future minimum lease payments are estimated as follows:

Year Ending December 31,	
2019	$ 7,000

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Board of Directors
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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 statement of financial position as of December 31, 2018, 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 January 28, 2021.

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 consider the deficiency described in the accompanying schedule of findings and responses as Finding No. 2018-1 to be a material weakness.

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 consider the deficiency described in the accompanying schedule of findings and responses as Findings No. 2018-2 to 2018-5 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*.

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

January 28, 2021

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

During our audit, we 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 audit, we 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 adjustments in the amount of $24,765 and recorded as miscellaneous revenue.

- **Accrued Vacation Liability**

  During our audit of accrued payroll liabilities, we 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**

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

  Recommendation:

  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 processes on maintaining 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.

Management's Response:

This has been addressed with the hiring of a controller.

Finding No. 2018-2 – Journal Entry Review Process

During our review of internal controls over financial reporting process, we noted that the journal entries and adjustments to the general ledger prepared and posted by Avitus, the Organization's bookkeeping service provider, do not go through a review process for accuracy.

Per inquiry with client, there is no formal review of journal entries and general ledger for accuracy, however at year end, the Organization hires a CPA consultant to clean up and make all necessary adjustments to their books.

Recommendation:

We recommend that Management establish a process to have someone from the finance periodically review the journal entries and adjustments made to the general ledger for accuracy.

Management's Response:

This has been addressed with the hiring of a controller.

Finding No. 2018-3 – Review of Bank Reconciliation

During our review of internal controls over bank reconciliation process, we noted that there was no review of the monthly bank reconciliations prepared by Avitus. Furthermore, we reviewed the December 2018 reconciliation of their main checking account to the general ledger and noted a variance of approximately $14,000. It appeared that the statement had not been fully reconciled and difference still remained between the book and bank statement balances for the December 2018.

Recommendation:

We recommend that Management establish a process to have someone from the finance perform a monthly review of all the bank reconciliations to ensure that accounting errors, misstatements and / or unauthorized activities may be identified or corrected in a timely manner.

Management's Response:

This has been addressed with our finance committee and the hiring of the finance team.

Finding No. 2018-4 – Segregation of Duties

During our review of the Organization's internal controls for proper segregation of duties and procedures, we noted areas in which controls need to be improved and employee's access and/or duties revised. Good internal controls require that employees with access to the Organization's assets not have access to accounting records for the same assets. Ideally, one employee should retain authorization to use an asset and another employee should maintain the records over that asset. However, we noted that the same individual was responsible for multiple key aspects of a transaction, including authorizing, processing, recording, and reviewing.

- **Disbursement Process**

  We noted that the employee who processes accounts payable is also an authorized check signer, has access to blank checks, and is also responsible for mailing/releasing the checks. Additionally, check registers are not reviewed by another employee for accuracy prior to mailing the checks. The lack of segregation of duties in the disbursement process could possibly lead to fraudulent transactions and unauthorized payments.

- **Payroll Process**

  We noted that the employee who processes payroll also signs the payroll checks, has access to personnel files and can make changes in pay including her own hours and pay. We also noted that there is currently no review and approval of payroll prior to issuance of payroll.

  Recommendation:

  We recommend the Organization strengthen its internal controls to ensure an adequate segregation of duties exists over disbursement and payroll processing. Although the size of the Organization's finance department may not allow for proper segregation of duties, Management may consider involving executive level employees such as the president or board members to provide independent review of these accounting functions. By involving the board, it will give the Organization strong governance over the Organization.

  Management's Response:

  President or finance committee review and report out to the board as necessary.

Finding No. 2018-5 – Controls over Cash Receipts

During our review of internal controls over cash receipts, we noted that checks received by mail are opened by the Office Manager and are scanned into a folder on her desktop. The scanned checks are then sent via email to the Finance Department and Development Department and actual checks are sent to Finance Department for deposit. However, we noted that no check log is maintained and no reconciliation of daily cash receipts to accounting records are done to ensure that all cash receipts are accounted for.

Recommendation:

We recommend that Management consider maintaining a check log for checks received through the mail to properly record cash receipts and to reconcile it to the bank deposits. These will provide assurance over the completeness and accuracy of cash receipts received.

Management's Response:

This has already been implemented with online filing as well as the new controller was hired.