WeHOPE

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2022 AND 2021

WeHOPE

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

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LINDQUIST
VON HUSEN
& JOYCE LLP

CHARLOTTE SIEW-KUN TAY
CATHY L. HWANG
RITA B. DELA CRUZ
SCOTT K. SMITH
CRISANTO S. FRANCISCO
JOE F. HUIE

SHERMAN G. LEONG
KYLE F. GANLEY

Board of Directors
WeHOPE
San Francisco, California

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of WeHOPE as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of WeHOPE and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – New Accounting Standard

As discussed in Note 2 to the financial statements, WeHOPE adopted the new accounting guidance required by accounting principles generally accepted in the United States of America on leases. Our opinion is not modified with respect to this matter.

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.

BKR INTERNATIONAL
CERTIFIED PUBLIC ACCOUNTANTS, 301 Howard Street, Suite 850, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 http://www.lvhj.com

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 WeHOPE's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 GAAS and *Government 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 GAAS and *Government 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 WeHOPE'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 WeHOPE'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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2023 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

September 21, 2023

WeHOPE

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Current assets:		
Cash	$ 359,707	$ 295,227
Receivables		
Grants (Note 4)	2,153,519	1,604,356
Related-party (Note 3)	36,174	8,495
Other	-	4,471
Prepaid expenses	2,060	1,756
Total current assets	2,551,460	1,914,305
Restricted cash	120,032	19,596
Client funds held in trust	44,460	47,838
Property and equipment – net (Note 5)	2,460,500	2,599,544
Right-of-use asset – operating lease (Note 12)	153,062	-
Other assets (Note 10)	427,916	56,743
Total assets	$ 5,757,430	$ 4,638,026
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 531,935	$ 273,944
Operating lease liability – current portion (Note 12)	78,000	-
Client funds held in trust	44,460	45,534
Deferred revenue	237,970	9,195
Line of credit	585,140	140
Notes payable – current portion (Note 7)	7,926	7,635
Total current liabilities	1,485,431	336,448
Notes payable – net of current portion (Note 7)	673,297	681,077
Operating lease liability – net of current portion (Note 12)	77,762	-
Paycheck Protection Program note payable (Note 8)	-	300,480
Total liabilities	2,236,490	1,318,005
Net assets:		
Without donor restrictions	1,908,392	2,342,486
With donor restrictions (Note 9)	1,612,548	977,535
Total net assets	3,520,940	3,320,021
Total liabilities and net assets	$ 5,757,430	$ 4,638,026

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, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*	*Without Donor Restrictions*	*With Donor Restrictions*	*Total*
Support and revenue:						
Grants and contributions	$ 7,886,793	$ 882,129	$ 8,768,922	$ 6,961,871	$ 208,000	$ 7,169,871
In-kind contributions (Note 10)	399,465	-	399,465	-	-	-
Debt forgiveness income (Note 8)	300,480	-	300,480	347,469	-	347,469
Interest	499	-	499	90	-	90
Other income	8,172	-	8,172	109,500	-	109,500
Net assets released from restriction (Note 9)	247,116	(247,116)	-	59,188	(59,188)	-
Total support and revenue	8,842,525	635,013	9,477,538	7,478,118	148,812	7,626,930
Expenses:						
Program services	8,005,781	-	8,005,781	6,605,681	-	6,605,681
Management and general	970,615	-	970,615	737,879	-	737,879
Fundraising	300,223	-	300,223	246,012	-	246,012
Total expenses	9,276,619	-	9,276,619	7,589,572	-	7,589,572
Change in net assets	(434,094)	635,013	200,919	(111,454)	148,812	37,358
Net assets, beginning of year, as restated (Note 13)	2,342,486	977,535	3,320,021	2,453,940	828,723	3,282,663
Net assets, end of year	$ 1,908,392	$ 1,612,548	$ 3,520,940	$ 2,342,486	$ 977,535	$ 3,320,021

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, 2022 AND 2021

	2022			
	Program Services	*Management and General*	*Fundraising*	*Total*
Salaries and related expenses	$ 5,823,967	$ 668,419	$ 222,806	$ 6,715,192
Supplies	916,081	70,922	23,641	1,010,644
Depreciation	305,537	23,654	7,885	337,076
Repairs and maintenance	350,724	27,153	9,051	386,928
Services and professional fees	204,607	15,840	5,280	225,727
Utilities	83,757	6,484	2,161	92,402
Rent	79,394	6,146	2,050	87,590
Insurance	76,937	5,956	1,985	84,878
Travel, meals, and entertainment	35,368	24,608	8,203	68,179
Telephone and internet	51,842	11,037	3,679	66,558
Interest	-	21,071	7,024	28,095
Training and conferences	4,034	6,551	2,184	12,769
License and permit fees	8,241	1,175	392	9,808
Miscellaneous	65,292	81,599	3,882	150,773
Total expenses	$ 8,005,781	$ 970,615	$ 300,223	$ 9,276,619

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, 2022 AND 2021

	2021			
	Program Services	*Management and General*	*Fundraising*	*Total*
Salaries and related expenses	$ 4,790,915	$ 604,992	$ 201,664	$ 5,597,571
Supplies	684,948	53,028	17,676	755,652
Depreciation	266,373	20,622	6,874	293,869
Repairs and maintenance	159,860	12,376	4,125	176,361
Services and professional fees	146,825	11,367	3,789	161,981
Insurance	94,819	7,341	2,447	104,607
Utilities	77,684	6,014	2,004	85,702
Telephone and internet	38,880	3,010	1,003	42,893
Rent	34,218	2,649	883	37,750
Travel, meals, and entertainment	23,654	1,831	610	26,095
Interest	10,253	794	264	11,311
Training and conferences	7,809	605	202	8,616
License and permit fees	3,010	233	78	3,321
Miscellaneous	266,433	13,017	4,393	283,843
Total expenses	$ 6,605,681	$ 737,879	$ 246,012	$ 7,589,572

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, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ 200,919	$ 37,358
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	337,076	293,869
Debt forgiveness income	(300,480)	(347,469)
Lease expense – amortization of right-of-use asset – operating lease	54,629	-
(Increase) decrease in assets:		
Grant receivable	(549,163)	6,416
Related-party	(27,679)	49,524
Other receivable	4,471	(4,471)
Prepaid expenses	(304)	(156)
Client funds held in trust – cash	3,378	(14,404)
Other assets	(371,173)	12,837
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	257,991	(146,682)
Client funds held in trust	(1,074)	12,979
Deferred revenue	228,775	(20,886)
Operating lease liability	(51,929)	-
Net cash used in operating activities	(214,563)	(121,085)
Cash flows from investing activity:		
Purchase of property and equipment	(198,032)	(320,948)
Net cash used in investing activity	(198,032)	(320,948)
Cash flows from financing activities:		
Proceeds from line of credit	585,000	-
Proceeds from paycheck protection program loan	-	300,480
Payments of notes payable	(7,489)	(48,755)
Net cash provided by financing activities	577,511	251,725
Net increase (decrease) in cash and restricted cash	164,916	(190,308)
Cash and restricted cash, beginning of year	314,823	505,131
Cash and restricted cash, end of year	$ 479,739	$ 314,823
Cash	$ 359,707	$ 295,227
Restricted cash	120,032	19,596
Total cash and restricted cash shown in the statements of cash flows	$ 479,739	$ 314,823

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. The Organization had no assets with non-expiring donor restrictions as of December 31, 2022 and 2021.

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, 2022 and 2021, contributions of approximately $9,845,000 and $6,768,000 were 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.

Contributions of donated, non-cash assets are recognized and recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Rental income is shown at its maximum gross potential based on the term of the lease agreement. Rental income is included in other income in the accompanying statements of activities.

New Accounting Standard on Leases

New accounting standard on leases, required by accounting principles generally accepted in the United States of America, amends both lessor and lessee accounting with the most significant change being the requirement for lessees to account for leases as either finance leases or operating leases and to recognize right-of-use (ROU) assets and corresponding lease liabilities on the balance sheet for all leases other than leases with terms of 12 months or less. For finance leases, lessees would recognize interest expense and amortization of the ROU asset, and for operating leases, lessees would recognize straight-line total rent expense. The accounting standard also requires additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases.

The Organization adopted the leasing standard effective January 1, 2022, using the modified retrospective approach with January 1, 2022 as the initial date of application. The Organization elected to use all available practical expedients provided in the transition guidance. These practical expedients allow entities to not reassess the identification, classification and initial direct costs of lease agreements, to not separate lease and non-lease components for underlying equipment assets, and to use hindsight in lease agreements for determining lease term and ROU asset impairment, as applicable. As of January 1, 2022, adoption of the new leasing standard did not have a significant impact on the financial statements related to lessor accounting.

The Organization accounts for the existing office leases as operating leases. As of January 1, 2022, adoption of the new leasing standard resulted in a recognition of ROU asset and operating lease liability of $207,691.

Cash and Restricted 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 $186,000 as of December 31, 2022. 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 has 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 $44,460 and $47,838 as of December 31, 2022 and 2021, respectively.

Property and Equipment

Property and equipment are 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 2018 through 2021 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 September 21, 2023, 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, 2022 and 2021 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:

	2022	2021
Facility lease [(1)]	$ 12,000	$ 12,000
Property taxes and insurance [(2)]	50,314	8,495

[(1)] The Organization leases its recuperative care facility at 1836 Bay Road from Action Associates under a five-year agreement that expires in September 2024. Recuperative care facility rent expense was $12,000 in 2022 and 2021, (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 totaling $41,820 and $8,495 during 2022 and 2021, respectively, are prorated based on the square footage of the buildings. The full amount is included in related-party receivable as of December 31, 2022 and 2021.

NOTE 4 – GRANTS RECEIVABLE

Grants receivable are summarized as follows:

	2022	2021
City and County of San Francisco Department of Homelessness and Supportive Housing	$ 649,060	$ 253,957
San Mateo County Human Services Agency	378,410	197,968
City of Oakland	169,340	321,031
County of Santa Clara	150,473	95,241
Morgan Stanley Gift Fund	150,000	-
City of San Jose	110,244	76,623
San Mateo County Department of Housing	106,552	112,237
City of Berkeley	69,480	72,136
Givebutter	55,812	69,274
Emergency Food and Shelter Program	50,000	-
City of East Palo Alto	30,834	99,883
City of San Rafael	35,535	-
Interfaith Council of Alameda County	21,810	5,040
County of San Mateo – Public Planning and Health	15,564	29,592
County of Alameda	19,254	27,404
City of Sunnyvale	18,335	22,195
City of Los Angeles	16,880	-
Homefirst Services of Santa Clara County	16,825	-
Partners for Parks	14,040	-
Saint Samuel C.O.G.I.C.	11,750	8,750
City of Novato	11,585	-
First Presbyterian Church of Hayward	10,478	-
City of Milpitas	9,864	-
City of Santa Clara	7,720	-
Life Moves	6,162	-
Silicon Valley Community Foundation	-	100,400
Stanley and Joyce Black Family Foundation	-	50,000
Amgen Foundation	-	20,000
New Beginnings Community Church	-	10,000
Mountain View Community Services Agency	-	7,932
Fidelity Charitable	-	5,000
Others	17,152	19,693
Grants receivable	$ 2,153,519	$ 1,604,356
Amounts due in:		
Less than one year	$ 2,153,519	$ 1,604,356

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2022	2021
Land	$ 843,478	$ 843,478
Buildings and improvements	968,815	968,815
Furniture, fixtures, and equipment	1,901,521	1,759,585
	3,713,814	3,571,878
Less: accumulated depreciation	(1,312,286)	(975,210)
	2,401,528	2,596,668
Construction in progress	58,972	2,876
Total property and equipment	$ 2,460,500	$ 2,599,544

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 with Avid Bank with an expiry date of September 2023. The line of credit was amended in April 2022 to extend the expiration date to September 2028 and to increase the line of credit to $800,000, of which $585,140 and $140 was outstanding at December 31, 2022 and 2021, respectively. Advances on the line of credit are payable monthly and carry an initial interest rate of 4.75% per annum. The line of credit is secured by various assets of the Organization as specified in the commercial security agreement. Interest expense was $18,411 and $1,767 in 2022 and 2021, respectively.

NOTE 7 – NOTES PAYABLE

Notes payable consist of the following:

	2022		2021	
	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 is due monthly which commenced in October 2018 and $1,602 commencing October 2025. A balloon payment of approximately $197,000 is due in September 2028. Interest expense was $9,265 and $9,544 in 2022 and 2021, respectively.	$ -	$ 239,617	$ -	$ 247,106

	2022		2021	
	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. An amount of $49,067 was recognized as forgiven during 2021 and is included in debt forgiveness income in the accompanying statements of financial position.	-	441,606	-	441,606
Total	-	681,223	-	688,712
Less: current portion	-	(7,926)	-	(7,635)
Long-term portion	$ -	$ 673,297	$ -	$ 681,077

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

2023	$ 7,926
2024	8,228
2025	8,216
2026	7,613
2027	8,043

NOTE 8 – PAYCHECK PROTECTION PROGRAM

In April 2020, the Organization applied for and received loan funds totaling $298,402 from Santa Cruz County Bank 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 the U.S. Small Business Administration (SBA) and eligible for forgiveness if used on eligible costs during the covered period not to exceed 24 weeks after the loan proceeds were obtained, including the requirement to maintain staff and compensation levels as described in the Acts. Unforgiven funds were due by April 2022 extended for a term up to five years. In June 2021, the total loan amount of $298,402 was forgiven by Santa Cruz County Bank and the SBA, which was recognized as other income from loan forgiveness in the accompanying financial statements.

In March 2021, the Organization applied for and received a second PPP loan in the amount of $300,480 from Santa Cruz County Bank. Loan payments are deferred for the covered period not to exceed 24 weeks, plus 10 months from the date of disbursement. Any unforgiven balance will bear interest at 1% and will be due by March 2026, unless forgiven. In March 2022, the total loan amount of $300,480 was forgiven by Santa Cruz County Bank and the SBA, which was recognized as other income from loan forgiveness in the accompanying financial statements.

NOTE 9 – NET ASSETS

Net assets with donor restrictions are for the following purpose:

	December 31, 2021	*Contributions*	*Releases from Restrictions*	*December 31, 2022*
Dignity at Work	$ 143,911	$ 3,250	$ -	$ 147,161
Capital Campaign – building purchase and addition of recuperative unit	586,691	200,000	(26,170)	760,521
COVID-19 Relief	91,631	-	(14,875)	76,756
Mobile Homeless Services – Dignity on Wheels	-	262,720	(145,621)	117,099
Mobile Homeless Services – Safe Parking	110,000	50,000	(14,492)	145,508
Emergency Food and Shelter	25,000	100,345	(7,616)	117,729
HOPE Jobs	20,302	243,814	(23,092)	241,024
Tonga Relief	-	22,000	(15,250)	6,750
	$ 977,535	$ 882,129	$ (247,116)	$ 1,612,548

	December 31, 2020	*Contributions*	*Releases from Restrictions*	*December 31, 2021*
Dignity at Work	$ 115,111	$ 30,000	$ (1,200)	$ 143,911
Capital Campaign – building purchase and addition of recuperative unit	586,691	-	-	586,691
COVID-19 Relief	126,205	1,500	(36,074)	91,631
Mobile Homeless Services – Dignity on Wheels	716	18,800	(19,516)	-
Mobile Homeless Services – Safe Parking	-	110,000	-	110,000
Emergency Food and Shelter	-	25,200	(200)	25,000
HOPE Jobs	-	22,500	(2,198)	20,302
	$ 828,723	$ 208,000	$ (59,188)	$ 977,535

NOTE 10 – IN-KIND CONTRIBUTIONS

During the fiscal year ended December 31, 2022, the Organization received a non-cash donation of two manufactured steel-framed modular homes valued at $399,465 that have been reflected in the statement of activities. The Organization estimated the fair value based on identical fully functional modular homes. The modular homes will transfer ownership from the donor to the Organization in 2023. The non-cash donation is recorded as other asset as of December 31, 2022. The Organization does not sell in-kind donations and the modular homes are being used for its homeless shelter program.

NOTE 11 – 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:

	2022	2021
Financial assets at end of year available within one year:		
Cash	$ 359,707	$ 295,227
Grants receivable	2,153,519	1,604,356
Related-party receivable	36,174	8,495
Other receivable	-	4,471
	2,568,011	1,912,549
Less financial assets not available for general expenditures:		
Cash and receivables subject to expenditure for specific purpose	(1,612,548)	(977,535)
Financial assets available for general expenditures within one year	$ 955,463	$ 935,014

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 $955,463 and $935,014 of the financial assets in 2022 and 2021, respectively, is subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the 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 12 – 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 $4,500 and $6,000 in 2022 and 2021, respectively.

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

Year Ending December 31,	
2023	$ 6,000
2024	6,000
2025 – 2027	-
	$ 12,000

Lease Commitments

The Organization leases its recuperative care facility from Action Associates, under an operating lease agreement with lease date ending September 2024. The monthly lease payment is $1,000 (see Note 3). The Organization leases office space from Able Works, under an operating lease agreement with lease date ending December 2024. The monthly lease payment is $5,200 with an annual increase of $300 starting on the second year of the agreement. The Organization leases a portion of a parking lot from Ravenswood Family Health Center, on a month to month basis, after the two-year agreement expired in February 2022.

The right-of-use asset and liability were calculated utilizing risk-free discount rates, according to the Organization's elected policy. Rent expense in 2022 was $87,590, which includes $30,900 paid to Ravenswood Family Health Center for a month to month lease. Rent expense in 2021 prior to adoption of the new leasing standards, was and $37,750.

The line items in the balance sheet which include amounts for the operating lease as of December 31, 2022 are summarized as follows:

Right-of-use asset – operating lease	$ 153,062
Operating lease liability	155,762
Less: current portion	(78,000)
Long-term portion	$ 77,762

Future minimum rental payments for leases already committed are as follows:

2023	$ 78,000
2024	78,600
2025	-
2026	-
Total lease payments	156,600
Less amount representing interest	(838)
Present value of lease liability	$ 155,762

NOTE 13 – 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 East Palo Alto Greyhounds for its program to provide physical activities to underserved youth in the surrounding communities. The Organization is authorized to collect dues, contributions and grants to cover associated expenses. The total revenue for the program were $51,500 and $57,600, in 2022 and 2021, respectively. The total corresponding expenses were $18,450 and 51,837 in 2022 and 2021, respectively.

COVID-19 Pandemic

The emergence and spread of the coronavirus (COVID-19) 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 supply chains, service providers, and business partners, and changes in business practices, all of which are uncertain and cannot be determined at this time.

Lindquist von Husen & Joyce LLP

Charlotte Siew-Kun Tay
Cathy L. Hwang
Rita B. Dela Cruz
Scott K. Smith
Crisanto S. Francisco
Joe F. Huie

Sherman G. Leong
Kyle F. Ganley

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, 2022, 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 September 21, 2023.

Report on 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.

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. 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.

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, material weaknesses or significant deficiencies may exist that were not identified.

BKR International
Certified Public Accountants, 301 Howard Street, Suite 850, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 http://www.lvhj.com

Report on 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

September 21, 2023

Finding No. 2021-1 – Accounting and Reporting of Grants and Contributions - Material Weakness

Condition:

During our 2021 audit, we had noted that the Organization received a significant amount of government grants and contributions revenues during the year. A reimbursement grant for services provided in 2020 totaling $167,869 was mistakenly voided from the books. We also noted that a material contribution totaling $50,064 was committed close to the fiscal year ended December 31, 2020. Based on our discussion with management and upon review of the supporting documents, the contribution was unconditional and not subject to stipulation on the timing, uses and other conditions therefore the amount of $50,064 should have been recognized as contribution revenue for fiscal year ended December 31, 2020.

Recommendation:

We recommended 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.

Status:

During our 2022 audit, we did not propose similar adjustment and will deem this recommendation as implemented.

Finding No. 2020-1 – Accounting for Grants Contributions

Condition:

During our 2020 testing of revenue account balances, we had 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, and only $50,000 was recognized as contribution revenue in 2020 . Upon review of the grant agreement, the grant stipulations appear to have had 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. During the 2021 audit, we had likewise proposed material adjustments to the books.

Status:

During our 2022 audit, we did not propose similar adjustment and will deem this recommendation as implemented.

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

Condition:

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.

During the 2021 audit, we had likewise proposed material adjustments to the books

<u>Status:</u>

During our 2022 audit, we did not propose similar adjustment and will deem this recommendation as implemented.