



SANCTUARY OF HOPE

SANCTUARY OF HOPE
(A Non-Profit Corporation)

AUDITED FINANCIAL STATEMENTS

For The Year Ended June 30, 2022

with

INDEPENDENT AUDITORS' REPORT THEREON



CERTIFIED PUBLIC ACCOUNTANTS

SANCTUARY OF HOPE
(A Non-Profit Corporation)

INDEX

	<u>Page</u>
Independent Auditors' Report	1 - 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 13



Independent Auditors' Report

To the Board of Directors
Sanctuary of Hope

Opinion

We have audited the financial statements of Sanctuary of Hope (the “Organization,” a non-profit corporation), which comprise the statement of financial position as of June 30, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Sanctuary of Hope as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in 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 the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization’s ability to continue as a going concern for one year after the date that the financial statements are 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 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 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, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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.

PDM, LLP

Torrance, California
February 9, 2023

SANCTUARY OF HOPE
(A Non-Profit Corporation)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	266,504
Grants receivable		1,148,518
Cash client deposits		47,409
Prepaid expenses		9,883
		<u>1,472,314</u>

SECURITY DEPOSITS AND OTHER ASSETS

13,577

\$ 1,485,891

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$	57,149
Client deposits		47,409
Deferred revenue		1,232,692
		<u>1,337,250</u>

LONG-TERM LIABILITIES

Note payable		<u>150,000</u>
		<u>1,487,250</u>

NET ASSETS (DEFICIT)

Without donor restrictions		(43,957)
With donor restrictions		42,598
		<u>(1,359)</u>
	<u>\$</u>	<u>1,485,891</u>

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

SANCTUARY OF HOPE
(A Non-Profit Corporation)

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Government grants	\$ 1,853,945	\$ -	\$ 1,853,945
Grants and contributions	508,387	-	508,387
Interest income	16	-	16
Net assets released from restrictions	<u>7,402</u>	<u>(7,402)</u>	<u>-</u>
	<u>2,369,750</u>	<u>(7,402)</u>	<u>2,362,348</u>
FUNCTIONAL EXPENSES			
Program services	2,190,159	-	2,190,159
Supporting services	249,736	-	249,736
Fundraising	<u>24,790</u>	<u>-</u>	<u>24,790</u>
	<u>2,464,685</u>	<u>-</u>	<u>2,464,685</u>
CHANGE IN NET ASSETS	(94,935)	(7,402)	(102,337)
NET ASSETS, beginning of year	<u>50,978</u>	<u>50,000</u>	<u>100,978</u>
NET ASSETS (DEFICIT), end of year	<u>\$ (43,957)</u>	<u>\$ 42,598</u>	<u>\$ (1,359)</u>

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

SANCTUARY OF HOPE
(A Non-Profit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 937,999	\$ 83,713	\$ 10,711	\$ 1,032,423
Employee benefits	103,268	7,679	1,507	112,454
Payroll taxes	<u>75,683</u>	<u>7,494</u>	<u>832</u>	<u>84,009</u>
	1,116,950	98,886	13,050	1,228,886
Rental assistance	400,838	-	-	400,838
Professional fees	42,273	99,726	604	142,603
Consulting services	111,755	-	-	111,755
Client Support	109,630	109	-	109,739
Rent	70,574	3,198	-	73,772
Travel and meeting	65,911	6,725	154	72,790
Supplies and printing	60,401	5,411	9	65,821
Utilities	57,514	1,322	-	58,836
Other	50,229	3,287	156	53,672
Repair and maintenance	44,208	3,874	-	48,082
Information technology	32,315	4,748	1,538	38,601
Outreach	15,349	7,125	8,951	31,425
Insurance	11,655	11,333	130	23,118
Licenses, permits and fees	<u>557</u>	<u>3,992</u>	<u>198</u>	<u>4,747</u>
	<u>\$ 2,190,159</u>	<u>\$ 249,736</u>	<u>\$ 24,790</u>	<u>\$ 2,464,685</u>

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

SANCTUARY OF HOPE
(A Non-Profit Corporation)

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (102,337)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Changes in operating assets and liabilities:	
Grants receivable	(785,114)
Other receivable	11,325
Prepaid expenses	(1,297)
Accounts payable and accrued expenses	(15,684)
Deferred revenue	976,985
Net cash flows from operating activities	<u>83,878</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Increase in security deposits and other assets	<u>(2,528)</u>
Net cash flows from investing activities	<u>(2,528)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from note payable	<u>150,000</u>
Net cash flows from financing activities	<u>150,000</u>

Net change cash and cash equivalents	231,350
Cash and cash equivalents, beginning of year	<u>35,154</u>
Cash and cash equivalents, end of year	<u>\$ 266,504</u>

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

SANCTUARY OF HOPE
(A Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - ORGANIZATION

Sanctuary of Hope (the “Organization,” a non-profit corporation), was established in 2010 by a group of South Los Angeles professionals to eliminate intergenerational poverty by promoting the value of higher education and housing stabilization. The Organization serves vulnerable Transition Age Youth (“TAY”), ages 16-25, who have diverse histories of foster care, juvenile justice involvement, homelessness, and being at-risk. The Organization provides basic needs, life coaching, mentoring, housing, college access and retention, emergency services, and financial assistance with the sole purpose of helping youth and young adults become self-sufficient.

Since its inception, the Organization helped over 1,100 youth and young adults with housing, education, basic needs, and leadership development services.

Funding - The Organization’s activities are primarily funded by county and city government contracts and by direct contributions from foundations, individuals, and corporations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor or grantor restrictions.

Net assets with donor restrictions - Net assets with donor restrictions are assets subject to donor or grantor-imposed restrictions, some of which are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, while others are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of net assets with donor restrictions are reported as reclassifications between the applicable classes of net assets.

SANCTUARY OF HOPE
(A Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Government grants revenue - The Organization receives a significant portion of its total revenue and support under various government contracts that pay the Organization based upon reimbursable costs as defined by the contract. Reimbursements recorded under these contracts are subject to audit. Management believes that material adjustments will not result from subsequent audits.

The Organization has contracts receivable from two significant government agencies, who accounted for approximately 82% of the Organization's outstanding accounts receivable balance at June 30, 2022. For the year ended June 30, 2022 these two government agencies accounted for approximately 72% of total government grants. The Organization cannot be certain that the contracts will be renewed after they expire.

Receivables due from government agencies are subject to government audit. Management believes that no material adjustments will result from subsequent audits, if any, by government agencies.

These contracts represent conditional grants and the amounts are recognized as qualifying expenditures are incurred and conditions are met. The Organization's contracts receivable primarily consist of reimbursements due from government contract reimbursement requests. On a periodic basis, the Organization evaluates outstanding contracts receivable and establishes an allowance based upon a history of past write-offs and collections as well as current credit conditions. At June 30, 2022, the Organization evaluated the collectability of government contracts receivable and believed the balance was fully collectible within one year.

In accordance with Accounting Standards Code 958-605 "Not-for-Profit Entities – Revenue Recognition ("ASC-958-605") the Organization recognizes its government contract support as a conditional contribution received. As a result, government contract support is recognized as grant support when the conditions of the government contract is met.

Contributions and pledges - Contributions and pledges are recognized at fair value when the donor makes an unconditional promise to give to the Organization. Contributions and pledges that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions and pledges are recognized.

SANCTUARY OF HOPE
(A Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. At June 30, 2022, no allowance for doubtful pledge receivable was recorded.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments - Financial instruments primarily consist of grants and contributions receivable. The Organization estimates that the fair value of its financial instruments at June 30, 2022 do not differ materially from its aggregate carrying value recorded in the accompanying statement of financial position. Considerable judgment is required in interpreting market data to develop the estimates of fair value and, accordingly, the estimates are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

Deferred revenue - Deferred revenue represents cash advances received from government contracts as well as conditional grants received where the conditions of the contract, or grant have not yet been met.

Cash and cash equivalents - For the purpose of reporting cash flows, cash and cash equivalents include operating cash held in banks, money market funds and investments with an original maturity of three months or less. The Organization maintains its cash balances in financial institutions, the balances of which may, at times, exceed federally insured limits.

Property and equipment - Property and equipment are recorded at cost with the exception of donated equipment, which is recorded at fair market value at the date of receipt. The cost of purchased assets or fair market value of donated assets is depreciated on a straight-line basis over their estimated useful lives.

When equipment is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is credited or charged to operations. Normal repairs and maintenance are expensed as incurred. Expenditures that materially increase the value or extend the useful lives of the assets are capitalized.

SANCTUARY OF HOPE
(A Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Long-lived assets - The Organization assesses, using a qualitative then a quantitative approach, the recoverability of long lived assets, including property and equipment, whenever triggering events, or changes in circumstances, indicate that the historical-cost carrying value of an asset may no longer be appropriate. The evaluation is performed by determining whether the depreciation and amortization of such assets over their remaining lives can be recovered through projected undiscounted cash flows. The amount of impairment, if any, is measured based on fair value and is charged to operations in the period in which such impairment is determined by management. To date, the Organization has not identified any impairment of long-lived assets. As of and for the year ended June 30, 2022, no triggering events were deemed present and therefore no impairment charges related to long lived assets were recognized. However, there can be no assurance that market conditions will not change, which could result in impairment of long-lived assets in the future.

Expense allocation - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. During the year, costs are categorized into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support activities by the method that best measures the relative degree of benefit.

Income taxes - The Organization is a public charity that has obtained an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC") and California state income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision has been made for federal or state income taxes. During the year ended June 30, 2022, the Organization had no unrelated business income.

In accordance with accounting principles generally accepted in the United States of America, the Organization recognizes the impact of tax positions in the financial statements if that position is more likely than not of being sustained in an audit, based on the technical merits of the position. To date, the Organization has not recorded any uncertain tax positions. The Organization recognizes potential accrued interest and penalties related to uncertain tax positions in income tax expense. During the year ended June 30, 2022, the Organization did not recognize any amount in potential interest and penalties associated with uncertain tax positions.

As of June 30, 2022, all federal tax returns since 2019 and state tax returns since 2018 are still subject to adjustment upon audit. No tax returns are currently being examined by taxing authorities.

SANCTUARY OF HOPE
(A Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Risks and uncertainties - Certain services of the Organization are governed by grants and contracts from governmental agencies and private sources. There can be no assurance that the Organization will be able to obtain future grants as deemed necessary by management, although management believes that there is no current indication that grants and contracts are in jeopardy. The loss of certain current grants, or the inability to obtain future grants, could have an adverse effect on the Organization's financial position and results of operations. Failure of the Organization to comply with applicable regulatory requirements can result in, among other things, loss of funding, warning letters, fines, injunctions, and civil penalties.

Subsequent events - Subsequent events have been evaluated by the Organization through February 9, 2023, which is the date these financial statements were issued, and no subsequent events have arisen, other than those described in these financial statements, that would require disclosure.

NOTE 3 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Organization's liquid financial assets as June 30, 2022:

Cash and cash equivalent	\$ 266,504
Grants receivable	<u>1,148,518</u>
Total financial assets	1,415,022
Net assets with donor restrictions:	<u>(42,598)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,372,424</u>

The Organization's goal is to maintain financial assets on hand to meet at least two months of normal operating expenses which, on average, totals approximately \$205,000 per month given full programmatic expenditures. With the current expenditures, the Organization possesses sufficient financial assets for approximately three months of expenditures to meet its mission.

The Organization is projecting to have improved cash flow and profitability in the fiscal year ending June 30, 2023 due to several factors including the Organization applying for employee retention credits (ERC) under the Cares Act, subsequent to June 30, 2022.

SANCTUARY OF HOPE
(A Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 - LIQUIDITY AND AVAILABILITY OF RESOURCES, Continued

COVID-19 impact - During March 2020, the World Health Organization declared the spread of Coronavirus disease, or COVID-19, a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets supply chains, businesses and communities. The pandemic slowed the Organization's ability to serve the community. However, the Organization has adapted its channels to reach clients amidst the restrictions imposed by the federal and state governments.

It is expected that COVID-19 could continue to negatively impact the Organization's fiscal year ending June 30, 2023 operations. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

NOTE 4 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following for the year ended June 30, 2022:

	June 30, 2021	Additions	Releases	June 30, 2022
Technology enhancement	\$ 50,000	\$ -	\$ (7,402)	\$ 42,598
	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ (7,402)</u>	<u>\$ 42,598</u>

NOTE 5 - NOTE PAYABLE

Note payable - The Organization has a note payable to a non-profit financial institution, with a principal amount of \$150,000. Proceeds were used for working capital purposes. The note is payable in four equal quarterly payments commencing July 1, 2024, nine months prior to maturity date, October , 2024, January 1, 2025 and until April 2025 (The "Maturity Date"). As of June 30, 2022, the balance of the note payable was \$150,000 and is non-interest bearing.

The future aggregate principal payments on the above notes for the years ended June 30 are as follows:

2023	\$ -
2024	75,000
2025	75,000
	<u>\$ 150,000</u>

SANCTUARY OF HOPE
(A Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Los Angeles lease - The Organization maintains a lease for a building in West Adams neighborhood in Los Angeles, California requiring monthly rents of \$5,000 through June 2022, with annual incremental rent increases each year thereafter through March 2023.

Hawthorne lease - The Organization maintains a housing lease for a building in Hawthorne, California requiring monthly rents of \$2,458 through September 2023, with annual incremental rent increases each year thereafter through September 2028.

Compton lease - On June 1, 2022, the Organization started a new housing lease at an office lease for a building in Compton, California requiring monthly rents of \$854 through May 2023, with annual incremental rent increases each year thereafter through May 2025.

In addition to the leases above, the Organization maintains short-term leases for temporary housing for clients throughout and nearby area of South Los Angeles and Hawthorne.

Future minimum lease payments under all operating lease agreements for years ending June 30 are:

2023	\$	58,441
2024		41,658
2025		41,970
2026		32,964
2027		33,953
Thereafter		<u>8,550</u>
	\$	<u>217,536</u>

Total rental expense, excluding short-term leases for client housing, was \$73,772 for the year ended June 30, 2022.

NOTE 7 - SUBSEQUENT EVENT

In September 2022, the Organization opened a 401(k) retirement savings plan (the "Plan"). The Retirement Plan covers all employees of the Organization. The employees may make contributions to the Retirement Plan up to the maximum amount allowed by the Code. The Organization's Board, at its discretion, may make optional contributions for any plan year subject to the Plan's other provisions. Contributions are subject to certain limitations.