

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**  
**and**  
**SUPPLEMENTARY INFORMATION**

**with**  
**INDEPENDENT AUDITORS' REPORT**

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## **INDEPENDENT AUDITORS' REPORT**

### **The Board of Directors of The Sheltering Arms, Inc. and Subsidiary**

#### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of The Sheltering Arms, Inc. and Subsidiary (the "Center"), a nonprofit organization, which comprise the consolidated statement of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### **Management's Responsibility for the Consolidated Financial Statements**

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

#### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center's preparation and fair presentation of the consolidated 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 Center'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 consolidated financial statements.

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

## Opinion

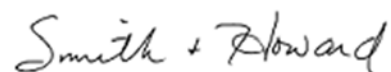
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Sheltering Arms, Inc. and Subsidiary as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with GAAP.

## Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. This schedule and the Schedule of Expenditures of Georgia Awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America ("GAAS"). In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated the date of this report on our consideration of the Center'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 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 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 the Center's internal control over financial reporting and compliance.



June 27, 2018

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**

**ASSETS**

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 426,059	\$ 2,052,508
Cash and cash equivalents - restricted	1,260,870	8,091,126
Interest reserve	286,376	512,400
Grants receivable	1,248,608	1,597,215
Unconditional promises to give	604,699	763,414
Prepaid expenses	16,791	15,901
Investments	6,444,933	7,795,034
Investments held under nonqualified retirement agreements	369,230	170,422
Property and equipment, net	29,284,435	23,894,096
Notes receivable	6,448,530	6,448,530
Other	-	30,477
	<u>\$ 46,390,531</u>	<u>\$ 51,371,123</u>

**LIABILITIES AND NET ASSETS**

Accounts payable	\$ 1,708,768	\$ 1,442,098
Accrued payroll	352,940	331,696
Accrued expenses and other liabilities	70,579	164,605
Obligations under nonqualified retirement agreements	369,230	170,422
Notes payable, net of debt issuance costs	13,568,047	18,348,759
	<u>16,069,564</u>	<u>20,457,580</u>
 Net Assets		
Unrestricted	23,643,280	21,654,069
Temporarily restricted	2,787,147	5,738,934
Permanently restricted	3,890,540	3,520,540
	<u>30,320,967</u>	<u>30,913,543</u>
	<u>\$ 46,390,531</u>	<u>\$ 51,371,123</u>

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

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support and Revenues and Gains:				
Public Support:				
Government grants and fees	\$ 19,584,623	\$ -	\$ -	\$ 19,584,623
United Way	30,751	755,596	-	786,347
Contributions	3,307,719	2,199,417	-	5,507,136
Corporate and foundation grants	697,890	1,144,866	370,000	2,212,756
Net assets released from restrictions:				
United Way	817,098	(817,098)	-	-
Satisfaction of program restrictions	6,910,568	(6,910,568)	-	-
Total Public Support	<u>31,348,649</u>	<u>(3,627,787)</u>	<u>370,000</u>	<u>28,090,862</u>
Revenues and Gains:				
Rental income	96,842	-	-	96,842
Special events and fundraising	241,502	-	-	241,502
Parent tuition	4,331,876	-	-	4,331,876
Training and fees	82,212	-	-	82,212
Interest and dividends	6,851	138,193	-	145,044
Net realized and unrealized gains	130,255	537,807	-	668,062
Miscellaneous revenue	147,188	-	-	147,188
Total Revenues and Gains:	<u>5,036,726</u>	<u>676,000</u>	<u>-</u>	<u>5,712,726</u>
Total Public Support, Revenues and Gains	<u>36,385,375</u>	<u>(2,951,787)</u>	<u>370,000</u>	<u>33,803,588</u>
Expenses				
Program services	31,661,478	-	-	31,661,478
Management and general	2,055,572	-	-	2,055,572
Fundraising	679,114	-	-	679,114
Total Expenses	<u>34,396,164</u>	<u>-</u>	<u>-</u>	<u>34,396,164</u>
Increase (Decrease) in Net Assets	1,989,211	(2,951,787)	370,000	(592,576)
Net Assets, Beginning of Year	<u>21,654,069</u>	<u>5,738,934</u>	<u>3,520,540</u>	<u>30,913,543</u>
Net Assets, End of Year	<u>\$ 23,643,280</u>	<u>\$ 2,787,147</u>	<u>\$ 3,890,540</u>	<u>\$ 30,320,967</u>

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

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support and Revenues and Gains:				
Public Support:				
Government grants and fees	\$ 18,682,951	\$ -	\$ -	\$ 18,682,951
United Way	-	878,600	-	878,600
Contributions	3,295,859	4,652,244	-	7,948,103
Corporate and foundation grants	1,074,714	-	-	1,074,714
Net assets released from restrictions:				
United Way	901,489	(901,489)	-	-
Satisfaction of program restrictions	3,043,874	(3,043,874)	-	-
Total Public Support	<u>26,998,887</u>	<u>1,585,481</u>	<u>-</u>	<u>28,584,368</u>
Revenues and Gains:				
Rental income	95,883	-	-	95,883
Special events and fundraising	219,868	-	-	219,868
Parent tuition	4,126,708	-	-	4,126,708
Training and fees	63,938	-	-	63,938
Interest and dividends	35,495	45,230	-	80,725
Net realized and unrealized losses	143,453	245,187	-	388,640
Miscellaneous revenue	190,620	-	-	190,620
Total Revenues and Gains:	<u>4,875,965</u>	<u>290,417</u>	<u>-</u>	<u>5,166,382</u>
Total Public Support, Revenues and Gains	<u>31,874,852</u>	<u>1,875,898</u>	<u>-</u>	<u>33,750,750</u>
Expenses				
Program services	29,087,504	-	-	29,087,504
Management and general	1,804,904	-	-	1,804,904
Fundraising	767,373	-	-	767,373
Total Expenses	<u>31,659,781</u>	<u>-</u>	<u>-</u>	<u>31,659,781</u>
Increase in Net Assets	215,071	1,875,898	-	2,090,969
Net Assets, Beginning of Year	<u>21,438,998</u>	<u>3,863,036</u>	<u>3,520,540</u>	<u>28,822,574</u>
Net Assets, End of Year	<u>\$ 21,654,069</u>	<u>\$ 5,738,934</u>	<u>\$ 3,520,540</u>	<u>\$ 30,913,543</u>

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

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2017**

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 16,651,220	\$ 1,213,223	\$ 315,296	\$ 18,179,739
Payroll taxes	1,242,412	90,211	23,591	1,356,214
Employee benefits	2,858,523	107,261	31,307	2,997,091
Postretirement cost	30,400	7,600	-	38,000
Professional fees	739,819	61,410	280,199	1,081,428
Food and kitchen supplies	1,252,907	-	-	1,252,907
Supplies	1,219,420	30,470	16,087	1,265,977
Telephone	258,668	30,505	3,731	292,904
Postage	1,986	1,642	3,186	6,814
Repairs and maintenance	1,673,519	28,335	-	1,701,854
Rent	3,127,200	2,289	-	3,129,489
Utilities	647,649	10,903	-	658,552
Transportation costs	115,230	8,269	-	123,499
Conferences and meetings	220,676	30,979	5,717	257,372
Membership dues	1,045	13,828	-	14,873
Subscriptions	1,432	849	-	2,281
Insurance	366,930	12,172	-	379,102
Training	127,463	23,264	-	150,727
Permits and fees	61,389	25,240	-	86,629
Interest expense	288,734	34,400	-	323,134
Depreciation	774,856	193,714	-	968,570
Bad debt expense	-	129,008	-	129,008
<b>Total Expenses</b>	<b>\$ 31,661,478</b>	<b>\$ 2,055,572</b>	<b>\$ 679,114</b>	<b>\$ 34,396,164</b>

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

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2016**

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 14,816,117	\$ 975,403	\$ 317,404	\$ 16,108,924
Payroll taxes	1,110,932	72,551	23,715	1,207,198
Employee benefits	2,339,306	82,307	33,923	2,455,536
Postretirement cost	30,400	7,600	-	38,000
Professional fees	1,156,476	140,161	376,616	1,673,253
Food and kitchen supplies	1,262,864	-	-	1,262,864
Supplies	994,689	18,383	5,032	1,018,104
Telephone	237,366	24,205	4,422	265,993
Postage	1,162	2,684	3,815	7,661
Repairs and maintenance	1,726,260	16,175	-	1,742,435
Rent	3,120,046	2,968	-	3,123,014
Utilities	684,719	12,687	-	697,406
Transportation costs	116,152	10,876	-	127,028
Conferences and meetings	191,857	138,829	2,446	333,132
Membership dues	5,325	5,627	-	10,952
Subscriptions	567	-	-	567
Insurance	339,689	54,245	-	393,934
Training	37,331	29,205	-	66,536
Permits and fees	31,424	23,131	-	54,555
Interest expense	159,884	6,633	-	166,517
Depreciation	724,938	181,234	-	906,172
<b>Total Expenses</b>	<b>\$ 29,087,504</b>	<b>\$ 1,804,904</b>	<b>\$ 767,373</b>	<b>\$ 31,659,781</b>

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

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Increase (Decrease) in net assets	\$ (592,576)	\$ 2,090,969
Adjustments to reconcile increase (decrease) in net assets to net cash provided (required) by operating activities:		
Depreciation	968,570	906,172
Bad debt expense	129,008	-
Amortization on debt issuance cost	14,288	5,370
Net realized and unrealized gain on investments	(668,062)	(388,640)
Capital campaign cash received	(595,000)	(4,487,244)
Endowment cash received	(370,000)	-
(Increase) decrease in assets:		
Grants receivable	219,599	(10,019)
Unconditional promises to give	158,715	(93,481)
Prepaid expenses	(890)	(1,234)
Other	30,477	-
Increase (decrease) in liabilities:		
Accounts payable	(305,645)	(578,869)
Accrued payroll	21,244	29,614
Accrued expenses and other liabilities	(94,026)	82,619
Obligations under nonqualified retirement agreements	-	(518,796)
Total adjustments	<u>(491,722)</u>	<u>(5,054,508)</u>
Net cash required by operating activities	<u>(1,084,298)</u>	<u>(2,963,539)</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(5,786,594)	(1,398,427)
Issuance of notes receivable	-	(6,448,530)
Purchase of investments	(7,487,536)	(7,145,424)
Proceeds from sale of investments	9,505,699	7,769,634
Sale of investments under nonqualified retirement agreements	-	518,796
Net cash required by investing activities	<u>(3,768,431)</u>	<u>(6,703,951)</u>
Cash Flows from Financing Activities:		
Capital campaign cash received	595,000	4,487,244
Endowment cash received	370,000	-
Issuance of notes payable	-	14,776,000
Increase in debt issuance costs	-	(557,241)
Principal payments on notes payable	(4,795,000)	-
Net cash provided (required) by financing activities	<u>(3,830,000)</u>	<u>18,706,003</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(8,682,729)	9,038,513
Cash, Cash Equivalents, Restricted Cash, and Interest Reserve, Beginning of Year	<u>10,656,034</u>	<u>1,617,521</u>
Cash, Cash Equivalents, Restricted Cash, and Interest Reserve, End of Year	<u>\$ 1,973,305</u>	<u>\$ 10,656,034</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the year for interest	<u>\$ 390,954</u>	<u>\$ 161,147</u>

**Non-Cash Investing Activity:**

At December 31, 2017 and 2016, accounts payable included \$572,315 and \$894,731, respectively, of construction payables.

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

**THE SHELTERING ARMS, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE A – NATURE OF BUSINESS**

The Sheltering Arms, Inc. was organized in 1888 and chartered by the State of Georgia. The Sheltering Arms, Inc. is a nonprofit organization dedicated to providing services in the following areas:

- Early childhood care and education – nationally accredited child care, Early and Preschool Head Start, and a Georgia pre-kindergarten program with a combined capacity of 2,395 children through 16 neighborhood centers in 5 metropolitan Atlanta counties, serving 3,626 children
- Comprehensive support services for families
- Professional development through the Georgia Training Institute, a training institute focused on professional development for child care teachers, administrators and staff who work with families
- Community outreach

The Sheltering Arms NMTC, LLC was formed in 2016 to manage funds related to the New Market Tax Credit (NMTC) program obtained to help construct the Barack and Michelle Obama Center. The Sheltering Arms NMTC, LLC is a wholly owned subsidiary of The Sheltering Arms, Inc.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting and Principles of Consolidation

The consolidated financial statements include the accounts of The Sheltering Arms, Inc. and The Sheltering Arms NMTC, LLC (collectively, the “Center”). All significant inter-company accounts and transactions have been eliminated.

The Center follows accounting standards set by the Financial Accounting Standards Board (“FASB”). The FASB sets accounting principles generally accepted in the United States of America (“GAAP”).

Financial Statement Presentation

The Center presents its consolidated financial statements in accordance with GAAP. Under GAAP, the Center is required to report information regarding its consolidated financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions, as follows:

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial Statement Presentation (Continued)

**Unrestricted Net Assets** - Net assets that are not subject to donor-imposed restrictions including the carrying value of all property and equipment as well as net assets designated by the Board of Directors for specific purposes. Items that increase or decrease unrestricted net assets include program service fees and related expenses associated with the core activities of the Center.

**Temporarily Restricted Net Assets** - Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Center or the passage of time. Items that affect temporarily restricted net assets are restricted contributions including pledges for which restrictions have not been met. These amounts are reclassified to unrestricted net assets when such restrictions are met or have expired.

**Permanently Restricted Net Assets** - Net assets subject to donor-imposed restrictions to be maintained permanently by the Center. Items that affect permanently restricted net assets include gifts wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment) and only the income be made available for program operations or other purposes as specified by the donor.

Cash and Cash Equivalents, Restricted Cash, and Interest Reserve

For purposes of the consolidated financial statements, the Center considers all liquid instruments having initial maturities of three months or less to be cash equivalents.

At December 31, 2017 and 2016, the Center had restricted cash and cash equivalents related to the New Market Tax Credit transaction as further discussed in Note I, in the amount of \$1,260,870 and \$8,091,126, respectively.

At December 31, 2017 and 2016, the Center had interest reserve accounts for the purpose of interest payments on notes payable related to the New Market Tax Credit transaction in the amount of \$286,376 and \$512,400 respectively,

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Concentration of Credit Risk

The Center's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, interest reserves, unconditional promises to give, and grants receivable. At times, cash and cash equivalents and interest reserves may exceed federally insured amounts. The Center believes it reduces risks associated with balances in excess of federally insured amounts by maintaining its cash and cash equivalents and interest reserves with major financial institutions with sound financial standing. Management continually monitors receivable balances and believes that its exposure to credit risk is limited. If liquidity issues arise in the global credit and capital markets, it is at least reasonably possible that these changes in risks could materially affect the amounts reported in the accompanying consolidated financial statements.

Contributions and Unconditional Promises to Give

Contributions, which include unconditional promises to give (pledges), are recognized as revenue in the period the unconditional promise is received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions upon which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. At December 31, 2017 and 2016, unconditional promises to give were \$604,699 and \$763,414, respectively. Unconditional promises to give are expected to be collected in 2018. No provision has been made for uncollectible accounts, as management considers all accounts to be currently collectible. Uncollectible accounts are expensed on an individual basis when they are deemed to no longer be collectible.

Grants and Contracts

The Center receives grants from federal and state governments and from various other institutions for purposes specified in each grant. Grant revenue on cost-reimbursement grants is recognized when program expenditures have been incurred and is recorded as direct support from the agencies. Grant revenue is reported as an increase in unrestricted net assets if there are no stipulated restrictions within the grant agreement or if the restrictions are satisfied in the period in which the grant revenue is recognized. Receivables arise from reimbursements owed through these contracts. The Center's ability to collect amounts due is affected by the acceptance of reimbursable expenses and performance-based outcomes, which meet contract requirements.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments

Investments are reported at fair market value in accordance with GAAP. Fair value is determined from quoted market prices of similar instruments. Realized and unrealized gains and losses are reflected in the accompanying consolidated statement of activities and changes in net assets.

Fair Value Measured on a Recurring Basis

GAAP provisions on fair value measurements and disclosures establish a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation technique used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy under GAAP are described below:

Basis of Fair Value Measurement

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Fair Value Measurement (Continued)

Fair value of assets measured on a recurring basis at December 31, 2017 and 2016 were as follows:

	<b><u>2017</u></b>			Measured at	
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Money market funds	\$ 14,871	\$ -	\$ -	\$ -	\$ 14,871
Mutual funds	368,071	-	-	-	368,071
Equity securities	3,764,222	-	-	-	3,764,222
Bond funds	<u>2,297,769</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,297,769</u>
	<u>\$ 6,444,933</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,444,933</u>
	<b><u>2016</u></b>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	Measured at	<u>Total</u>
				<u>NAV</u>	
Money market funds	\$ 1,164,704	\$ -	\$ -	\$ -	\$ 1,164,704
Fixed Income	2,144,352	-	-	-	2,144,352
Mutual funds	1,221,007	-	-	-	1,221,007
Equity securities	2,625,051	-	-	-	2,625,051
Hedge funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>639,920</u>	<u>639,920</u>
	<u>\$ 7,155,114</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 639,920</u>	<u>\$ 7,795,034</u>

In accordance with FASB ASC Topic 820-10, as amended by ASU 2015-07, certain investments that are measured using the net asset value (NAV) per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the carrying values.

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Sensitivity of Fair Value Measurements and Changes in Significant Observable Inputs

*Hedge Funds*

This class consists of investments in funds which invest in a diversified group of pooled investment vehicles, the objective of which is to achieve risk-adjusted returns with low volatility and low correlation to the equity and fixed income markets. Redemption from these funds requires up to a 75 day notice period and is allowed between quarterly and semi-annually. The 2016 fair value of the investment in this class was determined using the NAV per share of the funds. The fund was liquidated in 2017.

Endowments

GAAP requires the following financial statement disclosures for the Center:

- Classification of net assets

The Center includes the following funds within its endowment funds:

- Unrestricted-undesignated funds which may be used at the discretion of management.
- Temporarily restricted funds which may be used in accordance with the donor's wishes.
- The principal (corpus) of permanently restricted funds may be invested and the earnings may be used in accordance with the donor's wishes.

Interpretation of Relevant Law

The Center has interpreted the Georgia Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets and maintained as such for appropriation for expenditure by the Center in a manner consistent with the standard of prudence prescribed by UPMIFA and donors' restriction.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Interpretation of Relevant Law (Continued)

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

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

Investment Policy and Guidelines

The goal for the endowment's investment pool is to provide a real total return that preserves the purchasing power of the endowment's assets, while generating an income stream to support the endowment's activities. The endowment's real total return will be sought from an investment strategy that provides an opportunity for superior total returns within acceptable levels of risk and volatility.

For the long-term, the primary investment objective for the endowment pool is to earn a total return (net of portfolio management fees), within prudent levels of risk, which is sufficient to maintain in real terms the purchasing power of the endowment's assets and support the defined spending policy. The endowment will attempt to achieve annual returns equal to or in excess of the U.S. Treasury Bill return plus 5% within prudent levels of risk.

Spending Policy

The long-term objective of the spending guideline is to maintain the purchasing power of the endowment with the goal of providing a reasonable, predictable, stable, and sustainable level of income to support current operations. The Investment Committee approves an annual spending rate within a range of three to six percent (3%-6%). The Board-approved rate is applied to a three-year average market value to determine the endowment's distributable earnings.

*General Endowment Fund* – Spending is to only be disbursed with Board approval for urgent needs for the agency not to exceed investment income earned.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Spending Policy (Continued)

*Tuition Assistance Fund* – The Grantee will pay out for the designated purposes of the grant an amount each year, which is consistent with the Grantee’s spending policy for its endowment fund, which currently treats 4% of the average value of the endowment as spendable income.

*Building Maintenance Fund* – Spending is to be disbursed based on the Capital Replacement Plan, not to exceed investment income earned.

Changes in endowment net assets for the years ended December 31, 2017 and 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2015	\$ 1,109,207	\$ 3,400,849	\$ 3,520,540	\$ 8,030,596
Contributions	20,000			20,000
Investment income	35,495	45,230	-	80,725
Net realized/unrealized gains	143,453	245,187	-	388,640
Amounts used in operations	-	(724,927)	-	(724,927)
Endowment net assets, December 31, 2016	1,308,155	2,966,339	3,520,540	7,795,034
Contributions	-	1,080,000	370,000	1,450,000
Investment income	33,470	138,193	-	171,663
Net realized/unrealized gains	130,255	537,807	-	668,062
Amounts used in operations	(1,327,554)	(2,312,272)	-	(3,639,826)
Endowment net assets, December 31, 2017	<u>\$ 144,326</u>	<u>\$ 2,410,067</u>	<u>\$ 3,890,540</u>	<u>\$ 6,444,933</u>

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property and Equipment

The Center capitalizes all expenditures for property and equipment in excess of \$5,000. Purchased property and equipment is carried at cost. Donated property and equipment is carried at the approximate fair market value at the date of the donation. Depreciation is computed on the straight-line method over the estimated useful lives of the respective assets. Furniture and equipment is depreciated over useful lives of 5 to 15 years, vehicles over 7 to 10 years, building improvements over 10 to 40 years, and buildings over 40 to 50 years. Upon retirement or disposal of property and equipment, the costs and related accumulated depreciation are eliminated, and any gain or loss is included in the accompanying statement of activities and changes in net assets.

Long-Lived Assets

The Center evaluates its long-lived assets held for use in operations, including real estate, for indicators of impairment and if impaired, records such assets at the lower of cost or fair value in accordance with GAAP. There were no impairment losses incurred by the Center in 2017 and 2016.

Compensated Absences

Employees of the Center are entitled to paid vacations, sick days and other time off depending on job classification, length of service and other factors. The information is not available to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying consolidated financial statements. The Center's policy is to recognize the costs of compensated absences when paid to employees.

Donated Materials and Services

Donated material and equipment are reflected as contributions at their estimated values at date of receipt. No amounts have been reflected for donated volunteer services because they do not meet the criteria for inclusion in the consolidated financial statements. However, a substantial number of volunteers have donated significant amounts of time to the Center's program services and its fundraising activities.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Expenses Allocation

The cost of providing the Center's various programs and other activities has been summarized on a functional basis in the accompanying consolidated statement of activities and changes in net assets. Expenses are charged directly to program, management and general, or fundraising based on a combination of specific identification and allocation by management. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Income Taxes

The Center is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Center qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). Accordingly, no provisions for federal and state income taxes are reflected in the accompanying consolidated financial statements.

The Center annually evaluates all federal and state income tax positions. This process includes an analysis of whether these income tax positions the Center takes meet the definition of an uncertain tax position under the Income Taxes Topic of the Financial Accounting Standards Codification. In the normal course of business, the Center is subject to examination by the federal and state taxing authorities. In general, the Center is no longer subject to tax examinations for tax years ending before December 31, 2014.

During December 2017, the President of the United States of America signed into law the Tax Cuts and Jobs Act. The law is generally effective for the tax years beginning in 2018, and therefore current tax liability for any potential unrelated business income tax will not be affected until the Center's year ending December 31, 2018. There are other changes to the tax law that may affect the Center, but the magnitude of such changes has not been determined.

Reclassifications

Certain reclassifications have been made to the 2016 consolidated financial statements to conform with the 2017 presentation.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Subsequent Events

Management has evaluated subsequent events through the date of this report, which is the date the consolidated financial statements were available to be issued.

**NOTE C – GRANTS RECEIVABLE**

Grants receivable consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Government grants	\$ 1,244,608	\$ 1,117,404
Corporate and foundation grants	4,000	479,811
	<u>\$ 1,248,608</u>	<u>\$ 1,597,215</u>

**NOTE D – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,855,473	\$ 1,855,473
Buildings and improvements	34,787,439	26,290,100
Equipment	7,267,937	7,087,419
Vehicles	205,712	205,712
Construction in progress	-	2,318,948
	<u>44,116,561</u>	<u>37,757,652</u>
Less: accumulated depreciation	<u>(14,832,126)</u>	<u>(13,863,556)</u>
	<u>\$ 29,284,435</u>	<u>\$ 23,894,096</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$968,570 and \$906,172, respectively.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE E – NOTES RECEIVABLE**

As part of the NMTC program (see Note I), the Center entered into agreements to lend \$6,448,530 to two investment funds in December 2016. The notes bear interest at .5%. The note matures in December 2052. Management evaluated the financial condition of the borrower and considers the notes receivable fully collectible.

**NOTE F – LEASING TRANSACTIONS**

Operating Leases

The Center has non-cancelable operating leases for leased facilities and equipment that expire over future years. Future minimum lease payments required under non-cancelable operating leases for years ending December 31 are as follows:

2018	\$ 72,276
2019	72,276
2020	39,076
2021	39,076
2022	26,961
Thereafter	<u>25,000</u>
	<u>\$ 274,665</u>

Facility Leases

The Center leases classroom space at four Center locations, expiring in different years ranging from 2026 to 2030, at a rate of \$1 payable per year per the lease agreements. The value of the in-kind rent donated for the years ended December 31, 2017 and 2016 was estimated to be approximately \$1,083,000 each year.

Ground Leases

The Center entered into seven long-term ground lease agreements, at five Center locations, for the use of certain real property, expiring in different years ranging from 2037 to 2054. The premises are used for the purpose of operating and maintaining the Center facilities, at a rate of \$0 to \$10 payable per year. The value of the in-kind ground leases for the years ended December 31, 2017 and 2016 was estimated to be approximately \$2,024,000 each year.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE F – LEASING TRANSACTIONS (Continued)**

Total rental expense for the years ended December 31, 2017 and 2016 was \$3,129,489 and \$3,123,014, respectively. For the years ended December 31, 2017 and 2016, rent expense for operating leases not including in-kind rent was approximately \$53,000 and \$15,700, respectively.

Operating Lease Income

The Center has a cancelable agreement to rent office and classroom space in one of its neighborhood centers. Future minimum rental income under the agreement, expiring in 2020, is as follows:

2018	\$ 97,811
2019	98,790
2020	<u>99,774</u>
	<u>\$ 296,375</u>

**NOTE G – RETIREMENT PLANS**

The Center maintains a Safe Harbor 401(k) Profit-Sharing Plan. The Plan covers all employees who are at least 21 years of age with one or more years of service. The Center's contribution is based on matching 100% of the first 3% and 50% of the succeeding 2% of salary deferral elected by each eligible employee. The Center's contribution for the years ended December 31, 2017 and 2016 was \$175,152 and \$160,562, respectively.

The Center maintains a supplemental executive retirement plan. The plan provides each participant a defined benefit upon death, disability or retirement. The Center purchases various investments to fund benefit payments to the participants. Participants will receive either annual payments over 20 years or a lump-sum distribution. Annually, the Center makes contributions to the plan to purchase investments. The investment and related liabilities at December 31, 2017 and 2016 was \$369,230 and \$170,422, respectively.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE H – NOTES PAYABLE**

Notes payable include the following at December 31:

	<u>2017</u>	<u>2016</u>
Amounts outstanding under line of credit (a)	\$ 500,000	\$ 500,000
Term note payable (b)	4,030,000	4,130,000
Bridge loan (c)	281,000	4,976,000
Notes payable under New Market Tax Credit (See Note I)	<u>9,300,000</u>	<u>9,300,000</u>
	14,111,000	18,906,000
Debt issuance costs	<u>(542,953)</u>	<u>(557,241)</u>
	<u>\$13,568,047</u>	<u>\$18,348,759</u>

- (a) In 2016, the Center entered into a \$1,000,000 line of credit with a financial institution. The line of credit bears interest at LIBOR plus 2.25%, an effective rate of 3.69% at December 31, 2017. The line of credit expires on August 31, 2019. Outstanding borrowings under the line of credit were \$500,000 at December 31, 2017.
- (b) The Center has a note payable with a financial institution with an outstanding balance at December 31, 2017 of \$4,030,000. The note has a fixed interest rate of 3.80%, with interest installments paid monthly. Annual principal payments of \$100,000 are paid annually until the maturity date when the remaining principal balance is due. The note matures on September 7, 2022 and is secured by the Center's building facilities and equipment. The term note contains various covenants, which place restrictions on the Center's ability to incur additional indebtedness. In addition, under the covenants, the Center is to maintain certain levels of net assets and meet certain financial ratios as defined in the agreement. At December 31, 2017, the Center was not in compliance with the covenants and obtained a waiver from the bank.
- (c) As part of the NMTC (See Note I), the Center entered into a bridge loan with a financial institution until certain unconditional promises to give are received by the Center and submitted to the financial institution. The note has an outstanding balance at December 31, 2017 of \$281,000. The note bears interest at LIBOR plus 5.25% (effective rate of 6.74% at December 31, 2017). Subsequent to year the note was paid in full. The note was secured by proceeds of the Barack and Michelle Obama Center capital campaign (See Note J).

**THE SHELTERING ARMS, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE H – NOTES PAYABLE (Continued)**

Future principal maturities of the notes payable are as follows for the years ending December 31:

2018	\$ 881,000
2019	100,000
2020	100,000
2021	100,000
2022	3,630,000
Thereafter	<u>9,300,000</u>
	<u>\$ 14,111,000</u>

**NOTE I – NEW MARKET TAX CREDIT FINANCING TRANSACTIONS**

During 2016, the Center entered into a New Market Tax Credit (NMTC) program. NMTC financing allows organizations such as the Center to receive low-interest loans or investment capital from certified community development entities (CDEs), which will allow their investors to receive tax credits. To earn the tax credit, the NMTC investor must remain invested for a seven-year period, which will end for the Center's NMTC in 2023. As part of this financing arrangement, the Center issued two notes receivable in the total amount of \$6,448,530 to two investment funds (see Note E). The investment funds in turn made investments in two CDEs and hold a 99.99% investor member interest in the CDEs. The CDEs then made loans totaling \$9,300,000 to The Sheltering Arms NMTC, LLC. The loans bear interest at a rate which ranges from .5% to 1.083% and mature on September 1, 2056.

Professional fees associated with the NMTC transaction totaled \$507,481 and are being amortized over the life of the transaction. These costs are netted against the notes payable and amortization of these costs commenced in 2017.

The NMTC loans are not eligible for prepayment and their entire principal amount outstanding is due and payable on the maturity date. The agreements require (the Center) to maintain an interest reserve and the balance of the interest reserve was \$286,376 and \$512,400 at December 31, 2017 and 2016, respectively. The notes may not be prepaid prior to the seventh anniversary of execution at which time the lenders can accelerate repayment. The Sheltering Arms NMTC, LLC would be required to pay \$6,448,530 of principal and any accrued and unpaid interest plus \$1,000 to terminate the debt.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE J – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are comprised of funds the Center has received subject to donor imposed restrictions. Temporarily restricted net assets consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Capital improvements	\$ -	\$ 980,917
Capital Campaign	-	2,334,012
Teach Today Reach Tomorrow program	-	798,474
Scholarships	1,418,830	542,076
Teacher salaries and retention	321,493	126,015
United Way Impact	377,798	439,300
Model center maintenance	585,169	518,140
Other programs	83,857	-
	<u>\$ 2,787,147</u>	<u>\$ 5,738,934</u>

Temporarily restricted net assets released consisted of the following during the years ended December 31:

	<u>2017</u>	<u>2016</u>
Capital improvements	\$ 980,917	\$ 50,000
Capital Campaign	3,428,296	2,318,948
Teach Today Reach Tomorrow	798,474	138,000
Scholarships	1,013,070	491,840
Teacher salaries and retention	126,015	-
United Way Impact	817,098	901,489
Model center maintenance	42,028	-
Data collection	-	45,086
Other programs	521,768	-
	<u>\$ 7,727,666</u>	<u>\$ 3,945,363</u>

**THE SHELTERING ARMS, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE K – PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
General operating	\$ 500,000	\$ 500,000
Capital improvements	250,000	250,000
Scholarships	2,140,540	1,770,540
Program	<u>1,000,000</u>	<u>1,000,000</u>
	<u>\$ 3,890,540</u>	<u>\$ 3,520,540</u>

**NOTE L – COMMITMENTS AND CONTINGENCIES**

The Center has received grants and contributions, which require the fulfillment of certain conditions as set forth in the instrument of the grant. The failure to fulfill the conditions could result in the return of the funds to the grantors. Although the return of funds is a possibility, the Board of Directors deems the contingency unlikely.

The Center is dependent upon contributions, grants and other public support for its revenues. The ability of the Center's contributors, grantors and supporters to give amounts comparable with previous years is greatly dependent upon current and future overall programmatic and economic conditions. Therefore, the Center has developed a financial and operational plan to continue providing its programs.

**SUPPLEMENTARY INFORMATION**  
**REPORTS AND OTHER SCHEDULES AND INFORMATION**  
**AS REQUIRED BY THE UNIFORM GUIDANCE**  
**YEAR ENDED DECEMBER 31, 2017**

**THE SHELTERING ARMS, INC. AND SUBSIDIARY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Agriculture:</b>			
Passed through Bright From Start: Georgia Department of Early Care and Learning Child and Adult Care Food Program (CACFP)	10.558	01-121-04058-00-8	\$ 1,828,053
Total U.S. Department of Agriculture			<u>1,828,053</u>
<b>U.S. Department of Housing and Urban Development:</b>			
Passed through the State of Georgia/DeKalb County Community Development Block Grant (CDBG)	14.218	14-902890	23,000
Passed through the State of Georgia/Cobb County Community Development Block Grant (CDBG)	14.218	B-15-UC-15-0002	6,600
Total U.S. Department of Housing and Urban Development			<u>29,600</u>
<b>U.S. Department of Health and Human Services:</b>			
Direct programs:			
Head Start/Early Head Start	93.600	04CH4773/17	8,156,225
Head Start/Early Head Start	93.600	04CH4773/18	2,350,000
Pass-through from Georgia Department of Early Care and Learning			
Early Head Start Child Care Partnership (HUB)	93.600	469-G16TSAEHS001	392,041
Early Head Start Child Care Partnership (HUB)	93.600	469-G17TSAEHS001	502,105
Early Head Start Child Care Partnership (Dorothy Arkwright)	93.600	469-G16TSADAES001	570,172
Early Head Start Child Care Partnership (Dorothy Arkwright)	93.600	469-G17TSADAES001	526,854
Pass-through from Ninth District Opportunity, Inc. (Douglas County)			
Head Start/Early Head Start	93.600	N/A	70,753
Pass through from Ninth District Opportunity, Inc. (Hall County) -			
Head Start/Early Head Start	93.600	N/A	54,649
Head Start/Early Head Start	93.600	N/A	18,364
Total Head Start/Early Head Start			<u>12,641,163</u>
Pass-through from Division of Family and Children Services			
Temporary Assistance for Needy Families	93.558	FY17 SNF-WK	92,924
Temporary Assistance for Needy Families	93.558	FY18 SNF-WK	176,095
Total Temporary Assistance for Needy Families			<u>269,019</u>
Pass-through from The Center for Working Families, Inc.			
The Child Care and Development Fund	93.575	469-G17TSA002	442,000
Pass- through Georgia Department of Early Care and Learning			
The Child Care and Development Fund	93.575	62STP	170,500
Total Child Care and Development Fund			<u>612,500</u>
Pass-through from The Board of Regents of the			
The Board of Regents of the University System of Georgia	93.590	RE580397/S001264	23,125
Total Board of Regents			<u>23,125</u>
Total U.S. Department of Health and Human Services			<u>13,545,807</u>
Total Federal Expenditures			<u>\$ 15,403,460</u>

The accompanying notes are an integral part of this schedule.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**DECEMBER 31, 2017**

**1. General**

The accompanying schedule of expenditures of federal awards (the "SEFA") presents the activity of all federal financial awards programs received by the Center. All federal awards received directly from federal agencies, and federal awards passed through other government agencies, are included on the schedule.

**2. Basis of Accounting**

The accompanying SEFA is presented using the accrual basis of accounting, which is described in Note B to the financial statements. The information in the SEFA is presented in accordance with the regulations of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

**3. Single Audit Period**

The accompanying SEFA presents disbursements of the Center's programs for the year ended December 31, 2017.

**4. Indirect Cost Rate**

The Center did not elect to use the 10% de minimis cost rate covered under *Title 2 U.S. Code of Federal Regulations Part 200*, Subpart E, Cost Principles.

**5. Contingencies**

These Federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect the Center's continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the Center expects such amounts, if any, to be immaterial.

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

**To the Board of Directors  
The Sheltering Arms, Inc. And Subsidiary**

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 consolidated financial statements of The Sheltering Arms, Inc., and Subsidiary (the "Center") a nonprofit corporation, which comprise the consolidated statement of financial position as of December 31, 2017 and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated as of the date of this letter.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 Center's consolidated 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2017-001 that we consider to be a material weakness.

### **Compliance and Other Matters**

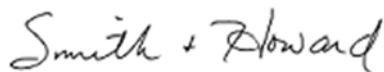
As part of obtaining reasonable assurance about whether the Center's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. 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*.

### **The Center's Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



June 27, 2018

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors  
The Sheltering Arms, Inc. And Subsidiary

### Report on Compliance for Each Major Federal Program

We have audited The Sheltering Arms, Inc., and Subsidiary (the "Center"), a nonprofit corporation, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended December 31, 2017. The Center's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

## **Report on Internal Control Over Compliance**

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Smith + Howard*

June 27, 2018

**THE SHELTERING ARMS, INC. AND SUBSIDIARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2017**

**SECTION I – Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued on compliance for major programs  
(unqualified, qualified, adverse or disclaimer)

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

  X   **Yes**                                 **No**

Significant deficiency(ies) identified not considered to be  
material weaknesses?

           **Yes**                        X   **None reported**

Non-compliance material to financial statements noted?

           **Yes**                        X   **No**

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?

           **Yes**                        X   **No**

Significant deficiency(ies) identified that are not considered to  
be material weaknesses?

           **Yes**                        X   **None reported**

Type of auditors' report issued on compliance for major programs  
(unqualified, qualified, adverse or disclaimer)

Unmodified

Any audit findings disclosed that are required to be reported in  
accordance with 2 CFR 200.516(a)

           **Yes**                        X   **No**

Identification of major programs:

**CFDA Number(s)**

93.600

**Name of Federal Program or Cluster**

Head Start/Early Head Start

Dollar threshold used to distinguish between  
Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

  X   **Yes**                                 **No**

**THE SHELTERING ARMS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2017**

**Section II – Financial Statement Findings Section**

2017-001 – Internal Controls over Financial Reporting

Criteria: In accordance with generally accepted government auditing standards, controls should be designed and implemented in the financial close and reporting process to provide reasonable assurance that material misstatements would be prevented or detected.

Condition and Context: The Center does not maintain effective controls, including monitoring, over the financial statement closing and reporting process. In connection with our audit procedures, we noted the reconciliation of certain accounts were either not performed or not recorded properly. Further, certain adjustments were required to be made to properly state various balances, including cash, nonqualified retirement plan, property and equipment, accounts payable, revenue and net asset balances.

Effect: Consolidated financial statements were not initially prepared in accordance with GAAP.

Cause: Adequate and timely procedures related to the consolidated financial statement close process are not in place.

Recommendation: Management should develop adequate procedures related to the financial statement close process to ensure GAAP basis consolidated financial statements are prepared accurately.

Grantee Comment: Management determined that there is a need for an internal auditor/monitor for the department. This position would help the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Management also determined that more closing activities should occur on a monthly or quarterly basis. Management has developed a detail corrective action plan for improving internal controls over financial reporting.

**Section III – Federal Award Findings and Questioned Costs Section**

None Noted

**THE SHELTERING ARMS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2017**

**Section IV – Schedule of Prior Audit Findings and Questioned Costs**

2016-001 – Internal Controls over Financial Reporting

Criteria: In accordance with generally accepted government auditing standards, a detail report of deficiencies in internal controls related to the consolidated financial statement audit are to be reported.

Condition and Context: In connection with our audit procedures, we noted instances of contributions and grants which were collected during the year and recorded as revenue even though the pledge was recorded within receivables and revenue in the prior year. We also noted debt issuance costs and interest reserves were expensed instead of capitalized in accordance with GAAP.

Status: Finding updated as 2017-001.

**OTHER SCHEDULES AND INFORMATION AS REQUIRED  
BY THE STATE OF GEORGIA**

**THE SHELTERING ARMS, INC. AND SUBSIDIARY  
SCHEDULE OF EXPENDITURES OF GEORGIA AWARDS  
YEAR ENDED DECEMBER 31, 2017**

State Agency/Program Name	Contract Number	Grant Period	Receipts	Expenditures	Amount Due to Center
Georgia Department of Early Care and Learning/ Bright from the Start:					
Georgia's Pre-K Program	N/A	1/1/2017-12/31/2017	\$ 3,406,664	\$ 3,406,664	\$ -
The Child Care and Development Fund	62STP	6/1/2017-7/31/2017	130,545	170,500	39,955
Child and Adult Care Food Program	01-121-004058-00-8	1/1/2017-12/31/2017	1,700,092	1,828,053	127,961
Early Head Start Child Care Partnership (HUB)	469-G15TSAEHS001	1/1/2017-6/30/2017	392,041	392,041	-
Early Head Start Child Care Partnership (HUB)	469-G16TSAEHS001	7/1/2017-12/31/2017	329,271	502,105	172,834
Early Head Start Child Care Partnership (Dorothy Arkwright)	469-G15TSADAEHS001	1/1/2017-6/30/2017	570,172	570,172	-
Early Head Start Child Care Partnership (Dorothy Arkwright)	469-G17TSA-DAEHS001	7/1/2017-12/31/2017	349,387	526,854	177,467
Georgia Department of Human Services:					
Temporary Assistance for Needy Families	FY17 SNF-WK	1/1/2017-9/30/2017	92,924	92,924	-
Temporary Assistance for Needy Families	FY18 SNF-WK	10/1/2017-12/31/2017	83,322	176,095	92,773
Georgia Childcare and Parent Services - Parent Vouchers	N/A	1/1/2017-12/31/2017	<u>719,519</u>	<u>719,519</u>	<u>-</u>
			<u>\$ 7,773,937</u>	<u>\$ 8,384,927</u>	<u>\$ 610,990</u>



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Martha Taylor Greenway  
Kevin Hamada  
Cathy Hilton  
Lori Kaczynski  
Jill MacRae  
Pegui Mariduena  
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Blythe Keeler Robinson  
*President and CEO*

June 29, 2018

The Sheltering Arms, Inc. and Subsidiary respectively submits the following corrective action plan for the year ended December 31, 2017.

*Corrective Action Plan*

The finding from the December 31, 2017 schedule of findings and questioned costs is discussed below. The finding is numbered consistently with the number assigned in the schedule.

**Section II – Financial Statement Findings**

**Finding reference and auditor recommendation:**

**2017-001 – Internal Controls over Financial Reporting**

**Recommendation:** Management should develop adequate procedures related to the financial statement close process to ensure GAAP basis consolidated statements are prepared accurately.

To ensure that internal controls over financial reporting are met, the following actions have or will occur:

Overall, it was determined that there is a need for an internal auditor/monitor for the department. This position would help the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It was also determined that more closing activities should occur on a monthly or quarterly basis.

**Cash** - Bank reconciliations are currently prepared by the Director of Accounting on a monthly basis and reviewed by the Vice President of Finance. The accounting staff is being cross trained to prepare these reconciliations with initial review by the Director of Accounting and final review by the Vice President of Finance. This review will still occur on a monthly basis. All reconciling items will be corrected by the following month.

**Cross Training** - The Finance Staff's skills and expertise in accounting areas were analyzed by the Vice President of Finance to determine the areas that the team members were not familiar with and to identify areas for improvement. . Because the Vice President of Finance has performed the work in all areas of the department, when there are absences and/or staffing shortages, the VP usually fills the role. The cross-training of the finance staff—teaching them how to do each other's jobs—will ensure that the work continues if there is an extended absence.



This will also allow for supervisors in the department to be available for monitoring and/or additional review of projects.

**Cross Training Plan**

<b>Job Title</b>	<b>Training Plan</b>
Director of Accounting	Grant Monitoring/Compliance Investment Activities-Net Assets/Endowment Monthly fiscal close Account Analysis Fixed Asset Capitalization Internal Financial Statement Trainings
Payroll Accountant	Accounts Payable Process Account Analysis Bank Reconciliations Journal Entries Tuition Revenue Monitoring
Accounts Payable Accountant	Payroll Process Account Analysis Bank Reconciliations Journal Entries Fixed Asset Capitalization
All Staff	Fin St Review/General Ledger Review
Development Team	Grant Monitoring/Compliance

**Non-Qualified Plan** – Staff has requested quarterly reports from Northwestern Mutual to ensure that the balance reflected in the General Ledger is accurate and reconciled to the statement. Any changes will be reflected in the general ledger.

**Property and Equipment** – Staff is reviewing various Fixed Asset programs to move the current manual (Excel) system to one that is more technology driven. In the meantime, expenses are being examined to determine if the purchase should be capitalized as an asset. If this is determined, the item will be capitalized and depreciation expenses will be booked to the general ledger.

**Accounts Payable** – Staff is reconciling accounts payables on a monthly basis. It is then reviewed by the Director of Accounting as a first step and then the Vice President of Finance. All reconciling items will be corrected by the following month.

**Net Assets** – Any activity in net assets will be reflected immediately in the general ledger. The request for release or changes to assets is reviewed by the CEO and submitted to the Finance Committee chair for final approval. Once the request is



approved, funds are released / transferred. The transaction is reflected in the general ledger during the monthly close. Also, the net assets worksheet is updated to reflect any changes.

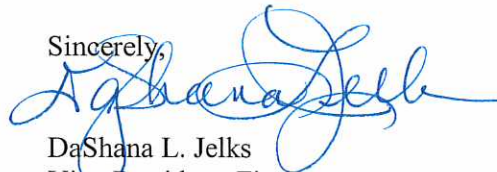
Completion plan and dates: Immediate action

Person Responsible: DaShana L. Jelks, Vice-President, Finance

Summary Schedule of Prior Year Findings and Questioned Costs Year Ended December 31, 2016

2016-001 Internal Control over Financial Reporting

Finding updated as 2017-001

Sincerely,  
  
DaShana L. Jelks  
Vice-President, Finance