

THE SHELTERING ARMS, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019
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 statements of financial position as of December 31, 2020 and 2019, 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with GAAP.

Emphasis of Matter

As discussed in Note J to the financial statements, the Center has experienced a decrease in net assets in previous years from operations. Management's evaluation of the events and conditions and management's plans to mitigate those matters are also described in Note J. Our opinion is not modified with respect to that matter.

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.

Smith and Howard

May 24, 2022

THE SHELTERING ARMS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,312,592	\$ 920,734
Cash and cash equivalents - restricted	412,486	423,445
Interest reserve	146,900	192,100
Government grants receivable	785,353	733,751
Unconditional promises to give	235,009	272,500
Prepaid expenses	7,147	17,486
Investments	6,556,771	5,860,280
Property and equipment, net	26,228,831	27,268,458
Notes receivable	6,448,530	6,448,530
	<u>\$ 43,133,619</u>	<u>\$ 42,137,284</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 244,546	\$ 700,800
Accrued payroll	471,269	421,601
Accrued expenses and other liabilities	4,051	93,895
Line of credit	1,800,000	1,550,000
Notes payable, net of debt issuance costs	12,442,734	12,515,623
Total Liabilities	<u>14,962,600</u>	<u>15,281,919</u>
 Net Assets		
Without donor restrictions		
Undesignated	6,748,280	6,586,501
Invested in property and equipment, net of related debt	13,786,097	14,752,835
	<u>20,534,377</u>	<u>21,339,336</u>
With donor restrictions	<u>7,636,642</u>	<u>5,516,029</u>
Total net assets	<u>28,171,019</u>	<u>26,855,365</u>
	<u>\$ 43,133,619</u>	<u>\$ 42,137,284</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, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public Support and Revenues and Gains:			
Public Support:			
Government grants and fees	\$ 18,420,879	\$ -	\$ 18,420,879
United Way	-	612,000	612,000
Contributions	2,069,526	554,678	2,624,204
Corporate and foundation grants	317,144	1,500,000	1,817,144
Net assets released from restrictions:			
United Way	692,500	(692,500)	-
Satisfaction of program restrictions	469,736	(469,736)	-
Total Public Support	<u>21,969,785</u>	<u>1,504,442</u>	<u>23,474,227</u>
Revenues and Gains:			
Rental income	96,719	-	96,719
Special events and fundraising	147,038	-	147,038
Parent tuition	2,394,959	-	2,394,959
Training and fees	20,284	-	20,284
Investment return, net	91,028	616,171	707,199
Miscellaneous revenue	206,693	-	206,693
Total Revenues and Gains	<u>2,956,721</u>	<u>616,171</u>	<u>3,572,892</u>
Total Public Support, Revenues and Gains	<u>24,926,506</u>	<u>2,120,613</u>	<u>27,047,119</u>
Expenses			
Program services	22,521,675	-	22,521,675
Management and general	2,648,604	-	2,648,604
Fundraising	561,186	-	561,186
Total Expenses	<u>25,731,465</u>	<u>-</u>	<u>25,731,465</u>
Change in Net Assets	(804,959)	2,120,613	1,315,654
Net Assets, Beginning of Year	<u>21,339,336</u>	<u>5,516,029</u>	<u>26,855,365</u>
Net Assets, End of Year	<u>\$ 20,534,377</u>	<u>\$ 7,636,642</u>	<u>\$ 28,171,019</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, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public Support and Revenues and Gains:			
Public Support:			
Government grants and fees	\$ 19,238,876	\$ -	\$ 19,238,876
United Way	225,833	385,000	610,833
Contributions	2,313,810	-	2,313,810
Corporate and foundation grants	913,958	325,000	1,238,958
Net assets released from restrictions:			
United Way	385,000	(385,000)	-
Satisfaction of program restrictions	1,039,111	(1,039,111)	-
Total Public Support	<u>24,116,588</u>	<u>(714,111)</u>	<u>23,402,477</u>
Revenues and Gains:			
Rental income	99,372	-	99,372
Special events and fundraising	122,506	-	122,506
Parent tuition	4,736,026	-	4,736,026
Training and fees	37,574	-	37,574
Investment return, net	69,639	848,734	918,373
Miscellaneous revenue	93,837	-	93,837
Total Revenues and Gains	<u>5,158,954</u>	<u>848,734</u>	<u>6,007,688</u>
Total Public Support, Revenues and Gains	<u>29,275,542</u>	<u>134,623</u>	<u>29,410,165</u>
Expenses			
Program services	26,211,338	-	26,211,338
Management and general	2,308,009	-	2,308,009
Fundraising	723,323	-	723,323
Total Expenses	<u>29,242,670</u>	<u>-</u>	<u>29,242,670</u>
Change in Net Assets	32,872	134,623	167,495
Net Assets, Beginning of Year	<u>21,306,464</u>	<u>5,381,406</u>	<u>26,687,870</u>
Net Assets, End of Year	<u>\$ 21,339,336</u>	<u>\$ 5,516,029</u>	<u>\$ 26,855,365</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, 2020

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 13,494,715	\$ 1,289,569	\$ 408,642	\$ 15,192,926
Payroll taxes	981,769	93,298	29,612	1,104,679
Employee benefits	2,103,572	83,682	31,833	2,219,087
Professional fees	411,933	452,339	86,630	950,902
Food and kitchen supplies	577,965	-	-	577,965
Supplies	602,301	19,271	2,113	623,685
Telephone	216,288	18,755	1,963	237,006
Postage	1,018	1,769	393	3,180
Repairs and maintenance	1,412,874	34,944	-	1,447,818
Rent	895,078	2,138	-	897,216
Utilities	498,547	10,020	-	508,567
Transportation costs	21,548	7,117	-	28,665
Conferences and meetings	28,050	7,806	-	35,856
Membership dues	5,913	6,444	-	12,357
Subscriptions	6,062	4,943	-	11,005
Insurance	267,447	124,030	-	391,477
Training	2,527	18,888	-	21,415
Permits and fees	7,284	105,443	-	112,727
Interest expense	115,512	150,330	-	265,842
Depreciation	871,272	217,818	-	1,089,090
Total Expenses	\$ 22,521,675	\$ 2,648,604	\$ 561,186	\$ 25,731,465

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, 2019

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 15,492,476	\$ 1,343,000	\$ 373,051	\$ 17,208,527
Payroll taxes	1,157,881	101,320	27,706	1,286,907
Employee benefits	2,534,303	74,015	29,843	2,638,161
Professional fees	406,163	312,111	279,335	997,609
Food and kitchen supplies	1,278,748	-	-	1,278,748
Supplies	569,816	9,333	6,256	585,405
Telephone	333,075	10,885	4,668	348,628
Postage	868	2,330	1,959	5,157
Repairs and maintenance	1,158,666	25,452	-	1,184,118
Rent	1,089,484	3,476	-	1,092,960
Utilities	461,968	4,661	-	466,629
Transportation costs	61,443	12,847	-	74,290
Conferences and meetings	140,936	32,001	505	173,442
Membership dues	4,903	6,656	-	11,559
Subscriptions	-	18,315	-	18,315
Insurance	229,277	49,455	-	278,732
Training	25,060	26,929	-	51,989
Permits and fees	95,461	39,648	-	135,109
Interest expense	294,370	16,464	-	310,834
Depreciation	876,440	219,111	-	1,095,551
Total Expenses	\$ 26,211,338	\$ 2,308,009	\$ 723,323	\$ 29,242,670

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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,315,654	\$ 167,495
Adjustments to reconcile change in net assets to net cash provided (required) by operating activities:		
Depreciation	1,089,090	1,095,551
Amortization on debt issuance cost	27,111	14,288
Net realized and unrealized gain on investments	(696,491)	(817,080)
(Increase) decrease in assets:		
Grants receivable	(51,602)	253,332
Unconditional promises to give	37,491	(6,163)
Prepaid expenses	10,339	(17,486)
Increase (decrease) in liabilities:		
Accounts payable	(456,254)	(1,158,310)
Accrued payroll	49,668	120,031
Accrued expenses and other liabilities	(89,844)	48,895
Total adjustments	<u>(80,492)</u>	<u>(466,942)</u>
Net cash provided (required) by operating activities	<u>1,235,162</u>	<u>(299,447)</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(49,463)	-
Purchase of investments	-	(94,241)
Proceeds from sale of investments	<u>-</u>	<u>276,000</u>
Net cash provided (required) by investing activities	<u>(49,463)</u>	<u>181,759</u>
Cash Flows from Financing Activities:		
Borrowings on line of credit	250,000	550,000
Principal payments on notes payable	<u>(100,000)</u>	<u>(100,000)</u>
Net cash provided by financing activities	<u>150,000</u>	<u>450,000</u>
Change in Cash, Cash Equivalents , Restricted Cash, and Interest Reserve	1,335,699	332,312
Cash, Cash Equivalents, Restricted Cash, and Interest Reserve, Beginning of Year	<u>1,536,279</u>	<u>1,203,967</u>
Cash, Cash Equivalents, Restricted Cash, and Interest Reserve, End of Year	<u>\$ 2,871,978</u>	<u>\$ 1,536,279</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 238,731</u>	<u>\$ 296,546</u>
Reconciliation of Cash, Restricted Cash and Interest Reserve to Financial Statements:		
Cash and cash equivalents	\$ 2,312,592	\$ 920,734
Cash and cash equivalents - restricting	412,486	423,445
Interest reserve	<u>146,900</u>	<u>192,100</u>
	<u>\$ 2,871,978</u>	<u>\$ 1,536,279</u>

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

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

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 childcare, 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 over 3,500 children
- Comprehensive support services for families
- Professional development through the Georgia Training Institute, a training institute focused on professional development for childcare 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”).

Presentation

Net assets, along with revenues, expenses, gains and losses, are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified and reported as follows:

- Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Center.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Presentation (Continued)

- Net Assets with Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that such resources be maintained in perpetuity.

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, 2020 and 2019, the Center had restricted cash and cash equivalents related to the New Market Tax Credit transaction as further discussed in Note H, in the amount of \$412,486 and \$423,445, respectively.

At December 31, 2020 and 2019, 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 \$146,900 and \$192,100, respectively.

Risks and Uncertainties

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.

The Center has experienced a disruption of normal business operations caused from COVID-19 since December 31, 2020. The overall financial impact cannot be determined through the date of this report; however, it is reasonably possible that changes in risks in the near term could occur which could result in a material change to the consolidated financial statements.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2020 and 2019, unconditional promises to give were \$235,009 and \$272,500, respectively, and are expected to be collected in 2021. 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 without donor restrictions 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.

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 as investment return.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, 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.

Fair value of assets measured on a recurring basis at December 31, 2020 and 2019 were as follows:

	<u>2020</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 7,664	\$ -	\$ -	\$ 7,664
Mutual funds	282,222	-	-	282,222
Equity securities	3,825,623	-	-	3,825,623
Bond funds	<u>2,441,262</u>	<u>-</u>	<u>-</u>	<u>2,441,262</u>
	<u>\$ 6,556,771</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,556,771</u>

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measured on a Recurring Basis (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>2019</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 811	\$ -	-	\$ -	\$ 811
Mutual funds	268,452	-	-	-	268,452
Equity securities	3,357,260	-	-	-	3,357,260
Bond funds	<u>2,233,757</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,233,757</u>
	<u>\$ 5,860,280</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 5,860,280</u>

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

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:

- Net assets without donor restrictions which may be used at the discretion of management.
- Net assets with donor restrictions which may be used in accordance with the donor's wishes.
- The principal (corpus) of 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 restricted net assets (a) the original value of gifts donated to the endowment, and (b) the original value of subsequent gifts to the endowment. The remaining portion of the donor-restricted endowment fund that is not classified in restricted net assets is classified as 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 FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

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.

Underwater Endowment Funds

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Center has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2020 and 2019, the Center did not have any endowments that were underwater.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in endowment net assets for the years ended December 31, 2020 and 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2018	\$ 32,383	\$ 5,192,576	\$ 5,224,959
Contributions	10,555	-	10,555
Investment return, net	52,032	848,734	900,766
Reclassification of restriction	543,690	(543,690)	-
Amounts used in operations	<u>-</u>	<u>(276,000)</u>	<u>(276,000)</u>
Endowment net assets, December 31, 2019	638,660	5,221,620	5,860,280
Contributions	1,080	-	1,080
Investment return, net	79,240	616,171	695,411
Reclassification of restriction	<u>27,558</u>	<u>(27,558)</u>	<u>-</u>
Endowment net assets, December 31, 2020	<u>\$ 746,538</u>	<u>\$ 5,810,233</u>	<u>\$ 6,556,771</u>

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 consolidated 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 2020 and 2019.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. The significant expense that is allocated includes depreciation, which allocated based on an estimate of administration and program space.

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, 2017.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

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 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Land	\$ 1,855,473	\$ 1,855,473
Buildings and improvements	34,929,269	34,929,269
Equipment	7,373,142	7,323,680
Vehicles	<u>205,712</u>	<u>205,712</u>
	44,363,596	44,314,134
Less: accumulated depreciation	<u>(18,134,765)</u>	<u>(17,045,676)</u>
	<u>\$ 26,228,831</u>	<u>\$ 27,268,458</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$1,089,090 and \$1,095,551, respectively.

NOTE D – NOTES RECEIVABLE

As part of the NMTC program (see Note H), 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 E – 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:

2021	\$ 29,076
2022	<u>16,961</u>
	<u>\$ 46,037</u>

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

NOTE E – LEASING TRANSACTIONS (Continued)

Facility Leases

The Center leased classroom space at three Center locations, expiring in different years ranging from 2026 to 2030, at a rate ranging from of \$1 to \$10,000 payable per year per the lease agreements. During 2021, one of the leases was terminated. The value of the in-kind rent donated for the years ended December 31, 2020 and 2019 was estimated to be approximately \$893,000 and \$988,000 each year and is included within contributions on the consolidated statement of activities and changes in net assets and rent within the statement of functional expenses.

Ground Leases

The Center entered into seven long-term ground lease agreements, 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 fair value of the leasing arrangement is not considered readily determinable.

For the years ended December 31, 2020 and 2019, rent expense for operating leases not including in-kind rent for facilities was approximately \$34,000 and \$72,000, 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, for 2020 is \$96,719. The agreement expired in 2020 and is currently a month to month agreement.

NOTE F – 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. Effective on July 1, 2020, the Center's matching contribution was suspended through December 31, 2020. The Center's contribution for the years ended December 31, 2020 and 2019 was approximately \$60,000 and \$104,000, respectively.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

NOTE G – NOTES PAYABLE AND LINE OF CREDIT

Notes Payable

Notes payable include the following at December 31:

	<u>2020</u>	<u>2019</u>
Term note payable (a)	\$ 3,630,000	\$ 3,730,000
Notes payable under New Market Tax Credit (See Note H)	<u>9,300,000</u>	<u>9,300,000</u>
	12,930,000	13,030,000
Debt issuance costs	<u>(487,266)</u>	<u>(514,377)</u>
	<u>\$ 12,442,734</u>	<u>\$ 12,515,623</u>

(a) The Center has a note payable with a financial institution with an outstanding balance at December 31, 2020 of \$3,630,000. 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.

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

	<u>2020</u>	<u>2019</u>
Term note payable (a)	\$ 3,630,000	\$ 3,730,000
Notes payable under New Market Tax Credit (See Note H)	<u>9,300,000</u>	<u>9,300,000</u>
	12,930,000	13,030,000
Debt issuance costs	<u>(487,266)</u>	<u>(514,377)</u>
	<u>\$ 12,442,734</u>	<u>\$ 12,515,623</u>

Line of Credit

The Center has a \$1,000,000 line of credit with a financial institution. The line of credit bears interest at prime less 0.75%, an effective rate of 2.75% at December 31, 2020. Subsequent to year end, the line of credit's maturity date was extended to August 31, 2022. Outstanding borrowings under the line of credit were \$1,000,000 at December 31, 2020 and 2019, respectively.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

NOTE G – NOTES PAYABLE AND LINE OF CREDIT (Continued)

Line of Credit (Continued)

In July 2019, the Center entered into an additional bridge line of credit with a financial institution for \$1,000,000 with a maturity date of December 31, 2020. During 2020, the line of credit's maturity date was extended to June 30, 2021. The line of credit bears interest at prime less 0.75%, an effective rate of 2.75% at December 31, 2020. At December 31, 2020 and 2019, the line of credit had a balance of \$800,000 and \$550,000, respectively. The line of credit was paid prior to the maturity date with the proceeds from the sale of Dorothy Arkwright property, discussed further in Note L.

The notes payable and line of credit described above have certain financial covenants, including a requirement to provide audited financial statements within a certain amount of time sequent to year end. At December 31, 2020, the Center was in compliance with certain financial covenants but not on providing audited financial statements. The Center received a covenant default waiver from the financial institutions.

NOTE H – 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 D). 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 2018.

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 \$192,100 at December 31, 2020 and 2019. 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 FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

NOTE I – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purpose at December 31:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Program support	\$ 214,409	\$ 101,909
Tuition	1,500,000	-
United Way	112,000	192,500
	<u>\$ 1,826,409</u>	<u>\$ 294,409</u>
Subject to spending policy and appropriation:		
Investment in perpetuity (including accumulated amounts above original gift amount of \$3,890,967 in 2020 and 2019), which, once appropriated, is expendable to support:		
Programs	1,653,255	1,356,975
Scholarships	2,500,682	2,356,440
Capital improvements	995,060	917,092
General support	661,236	591,113
	<u>5,810,233</u>	<u>5,221,620</u>
 Total net assets with donor restrictions	 <u>\$ 7,636,642</u>	 <u>\$ 5,516,029</u>

Net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes. Donor restricted net assets released consisted of the following during the years ended December 31:

	<u>2020</u>	<u>2019</u>
Program Support	\$ 282,178	\$ 715,294
Scholarships	160,000	317,037
United Way Impact	692,500	385,000
Capital improvements	27,558	6,780
	<u>\$ 1,162,236</u>	<u>\$ 1,424,111</u>

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

NOTE J – REALIZATION OF ASSETS

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Center will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. The Center believes it has the assets to operate into the foreseeable future. The Center has developed a cash flow projection which is dependent on the Center being able to continue receiving contributions and extend the maturity dates of the lines of credit and note payable as further described in Note G. Management repaid the \$800,000 line of credit from the asset sale as disclosed in Note L that occurred during April 2021. In prior year, management had an appraisal completed on four of their owned properties, which appraised at approximately \$18,000,000. The Center has been reviewing the options in the event of additional liquidity needs through mortgage options with financial institutions.

NOTE K – LIQUIDITY AND AVAILABILITY OF RESOURCES

For purposes of analyzing resources available to meet general expenditures within one year, the Center considers cash, grants receivable, investments, and unconditional promises to give without donor restriction that will be collected and available in the following year for activities that are ongoing and major to the Center. The Center's financial assets available for general expenditures within one year at December 31 are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 486,183	\$ 920,734
Government grants receivable	785,353	733,751
Unconditional promises to give	235,009	272,500
Investments	<u>746,538</u>	<u>638,660</u>
	<u>\$ 2,253,083</u>	<u>\$ 2,565,645</u>

NOTE L – SUBSEQUENT EVENT

The Center has entered into a purchase and sale agreement with a seller on January 16, 2021 for the purchase of the Dorothy Arkwright property. The sale closed on April 21, 2021 with a selling price of \$1,275,000 and a recorded gain of approximately \$1,200,000.

SUPPLEMENTARY INFORMATION
REPORTS AND OTHER SCHEDULES AND INFORMATION
AS REQUIRED BY THE UNIFORM GUIDANCE
YEAR ENDED DECEMBER 31, 2020

THE SHELTERING ARMS, INC. AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
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	\$ 636,525
Total U.S. Department of Agriculture			<u>636,525</u>
U.S. Department of Housing and Urban Development:			
Passed through the State of Georgia/DeKalb County			
Community Development Block Grant (CDBG)	14.218		50,000
Passed through the State of Georgia/Cobb County			
Community Development Block Grant (CDBG)	14.218		<u>14,315</u>
Total U.S. Department of Housing and Urban Development			<u>64,315</u>
U.S. Department of Treasury:			
Passed through the Gwinnett County, Georgia			
Coronavirus Aid, Relief, and Economic Security Act (CARES)	21.019	CRF-NPA-076	40,137
Pass- through Georgia Department of Early Care and Learning			
Coronavirus Aid, Relief, and Economic Security Act (CARES)	21.019		<u>138,245</u>
Total U.S. Department of Treasury			<u>178,382</u>
U.S. Department of Health and Human Services:			
Direct programs:			
Head Start/Early Head Start	93.600		8,853,312
Head Start/Early Head Start	93.600		<u>2,466,681</u>
Total Head Start/Early Head Start			<u>11,319,993</u>
Pass-through from Division of Family and Children Services			
Temporary Assistance for Needy Families	93.558	FY20 SNF-Work	<u>33,357</u>
Total Temporary Assistance for Needy Families			<u>33,357</u>
Pass- through Georgia Department of Early Care and Learning			
Child Care Development Funds	93.575	469-QRSG-TSA193	116,258
Child Care Development Funds	93.575	469-QRSG-TSA196	120,448
Child Care Development Funds	93.575	469-QRSG-SAE071	165,485
Child Care Development Funds	93.575	469-QRSG-TSA195	46,084
Child Care Development Funds	93.575	469-QRSG-TSA197	<u>196,906</u>
Total Child Care and Development Fund			<u>645,181</u>
Total U.S. Department of Health and Human Services			<u>11,998,531</u>
Total Federal Expenditures			<u>\$ 12,877,753</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, 2020

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, 2020.

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, however, grantor may require the Center to repay unallowable charges.



**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, 2020 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 two deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as finding 2020-001 and 2020-002 that we consider to be a material weaknesses.

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.

Smith and Howard

May 24, 2022



**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, 2020. 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, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2020-003 and 2020-004. Our opinion on each major federal program is not modified with respect to these matters.

The Center's response to the noncompliance 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 compliance and, accordingly, we express no opinion on the response.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-004, that we consider to be a material weakness. We additionally identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-03, that we consider to be a significant deficiency.

The Center's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

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 and Howard

May 24, 2022

**THE SHELTERING ARMS, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2020**

SECTION I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on compliance for major programs
(unmodified, 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?

 X **Yes** **No**

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

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

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

Unmodified

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

 X **Yes** **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?

 Yes X **No**

THE SHELTERING ARMS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2020

Section II – Financial Statement Findings Section

2020-001 – 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, pledges receivable and accrual, 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: Refer to Corrective Action Plan

**THE SHELTERING ARMS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2020**

Section II – Financial Statement Findings Section (Continued)

2020-002 – Preparation of the Schedule of Federal Awards

Criteria: Management is responsible for the accurate preparation of the schedule of expenditures of federal awards.

Condition and Context: We noted a significant portion of a grant was not included in the original schedule of expenditures of federal awards.

Effect or potential effect: Federally funded programs that meet the criteria for audit under the Uniform Guidance may not be properly tested for compliance.

Cause: The Organization does not have adequate controls over the preparation of the schedule of federal awards.

Recommendation: The Organization should review its process and controls over preparation of the schedule of expenditures of federal awards.

Grantee Comment: Refer to Corrective Action Plan

Section III – Federal Award Findings and Questioned Costs Section

2020-003 Finding: Reporting

Funding Agency: U.S. Department of Health and Human Services

Grant: *Head Start/Early Head Start*

CFDA Number: *93.600*

Grant Number: *04CH4773/20 and 04CH01165901/21*

Criteria: The grant awards associated with Head Start program require the quarterly SF-425 reports to be filed with 90 days after year end.

Condition: For awards with budget periods ending in 2020, the financial reporting forms SF-425s were later than prescribed due dates.

Questioned costs: None

Context: The annual SF-425 Federal Financial Reports were not filed by the stated due date.

Effect: Lack of compliance with grant requirements could result in a reduction in grant funding.

**THE SHELTERING ARMS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2020**

Section III – Federal Award Findings and Questioned Costs Section (Continued)

2020-003 Finding: Reporting

Cause: The absence of meeting the applicable reporting requirements is largely due to key employee turnover with the financial positions.

Auditor's Recommendations: We recommend that the Center monitors its contract reporting timeline and due date. The production and submission of reports should follow the timeline specified on the grants.

Grantee Comment: Refer to Corrective Action Plan

2020-004 Cash Management

Funding Agency: U.S. Department of Health and Human Services

Grant: *Head Start/Early Head Start*

CFDA Number: *93.600*

Grant Number: *04CH4773/20 and 04CH01165901/21*

Criteria: Management is responsible to ensure that the Federal Awarding agency's funds are drawn for expenses that were incurred by the Center or that the funds were utilized within three days of drawing down the funds. Supporting documentations should show that the costs for which reimbursement was requested or drawn are matched with associated expenses.

Condition: During the course of the auditing procedures we noted that the Center did not have proper controls in place to ensure that drawdowns match the expenditures incurred and that the related receivable was recorded in the proper period.

Questioned costs: None

Context: The Center could not provide supporting expenditures details to the associated draw from the federal's payment management system.

Effect: Due to the cause noted above, a significant adjustment was required in the financial statements.

Cause: Management did not reconcile the revenue and related expenses in the general ledger with the Federal cash draws.

Recommendation: Management should reconcile the revenue and related expenses to the federal draws to ensure that cash management compliance requirement is met as required by Uniform Guidance.

Grantee Comment: Refer to Corrective Action Plan

**THE SHELTERING ARMS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2020**

Section III – Federal Award Findings and Questioned Costs Section (Continued)

2020-005 Allowable Costs/Activities Allowed

Funding Agency: U.S. Department of Health and Human Services
Grant: *Head Start/Early Head Start*
CFDA Number: 93.600
Grant Number: 04CH4773/20 and 04CH01165901/21

Criteria: Funds spent under the grant must be allowed under *Title 2 U.S. Code of Federal Regulations Part 200 Subpart E*, Cost Principles (“Cost Principles”).

Condition: During the course of the auditing procedures we noted that the Center had two charges to the grant which did not follow Cost Principles. One cost was for a three year subscription agreement charged in entirety to the grant in the current year. The other cost was for grant writing services for which there was no support detailing the services were for the above referenced grant.

Questioned costs: \$4,600

Context: Of forty four expenditure samples, totaling \$53,573, selected from a population of \$1,229,009 we noted two which did not follow Cost Principles.

Effect: The costs could be deemed to be unallowable and have to be returned to the grantor.

Cause: Due to an ineffective review process of the charged costs compared to what is allowed under Cost Principles.

Recommendation: Management should ensure all costs charged to the grant follow Cost Principles.

Grantee Comment: Refer to Corrective Action Plan

Section IV – Schedule of Prior Audit Findings and Questioned Costs

2019-001 – 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 grants receivable, accounts payable and accrual, and net asset balances.

Status: Finding updated as 2020-001.

**THE SHELTERING ARMS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2020**

Section IV – Schedule of Prior Audit Findings and Questioned Costs (Continued)

2019-002 – Preparation of the Schedule of Federal Awards

Criteria: Management is responsible for the accurate preparation of the schedule of expenditures of federal awards.

Condition and Context: We received multiple versions of the schedule of expenditures of federal awards. Each version contained material changes from the prior.

Status: Finding updated as 2020-002.

2019-003 Finding: Reporting

Funding Agency: U.S. Department of Health and Human Services
Grant: Head Start/Early Head Start
CFDA Number: 93.600
Grant Number: 04CH4773/19

Criteria: The grant awards associated with Head Start program require the quarterly SF-425 reports to be filed with 90 days after year end.

Condition: For awards with budget periods ending in 2019, the financial reporting forms SF-425s were later than prescribed due dates.

Status: Finding updated as 2020-003.

2019-004 Cash Management

Funding Agency: U.S. Department of Health and Human Services
Grant: Head Start/Early Head Start
CFDA Number: 93.600
Grant Number: 04CH4773/19 and 20

Criteria: Management is responsible to ensure that the Federal Awarding agency's funds are drawn for expenses that were incurred by the Center or that the funds were utilized within three days of drawing down the funds. Supporting documentations should show that the costs for which reimbursement was requested or drawn are matched with associated expenses.

Condition: During the course of the auditing procedures we noted that the Center did not have proper controls in place to ensure that drawdowns match the expenditures incurred and that the related receivable was recorded in the proper period.

Status: Finding updated as 2020-004.

**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, 2020**

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	1/1/2020-12/31/2020	\$ 3,349,122	\$ 3,349,122	\$ -
Child and Adult Care Food Program	01-121-04058-00-8	1/1/2020-12/31/2020	635,525	635,525	-
Coronavirus Aid, Relief, and Economic Security Act	N/A	4/27/2020-9/30/2020	138,245	138,245	-
Child Care Development Funds	469-QRSG-TSA197	1/1/2020-12/31/2020	196,906	196,906	-
Child Care Development Funds	469-QRSG-TSA193	1/1/2020-12/31/2020	116,258	116,258	-
Child Care Development Funds	469-QRSG-TSA196	1/1/2020-12/31/2020	120,448	120,448	-
Child Care Development Funds	469-QRSG-TSA195	1/1/2020-12/31/2020	46,084	46,084	-
Child Care Development Funds	469-QRSG-SAE071	1/1/2020-12/31/2020	165,485	165,485	-
Georgia Department of Human Services:					
Temporary Assistance for Needy Families	FY20 SNF-WK	1/1/2020-12/31/2020	33,357	33,357	-
Parent Vouchers	N/A	1/1/2020-12/31/2020	<u>1,647,452</u>	<u>1,647,452</u>	-
			<u>\$ 6,448,882</u>	<u>\$ 6,448,882</u>	<u>\$ -</u>



BOARD OF DIRECTORS

May 24, 2022

Martha Greenway
Chair

The Sheltering Arms, Inc. and Subsidiary respectively submits the following corrective action plan for the year ending December 31, 2020.

Nicole Layne
Vice-Chair

Corrective Action Plan

The findings from the December 31, 2020 schedule of findings and questioned cost are discussed below. The findings numbered below are consistent with the number assigned in the schedule.

Dan Goerlich
Treasurer

Celena Matlock
Secretary

Section II – Financial Statement Findings Section

Walter Appleby

2020-0001 – Internal Controls over Financial Reporting

Leah Austin

Our efforts to address the persistent lack of effective monitoring over financial statement closing and reporting process reported in the December 31, 2020 Schedule of Findings, as laid out in the preceding corrective action plan, was further disrupted by the 2020 agency closure and limited re-opening due to the ongoing Covid-19 pandemic. The Finance department staff restructuring and critical hiring process was further delayed until the third quarter of 2021. We now have in place a permanent Chief Financial Officer who provides daily supervision to a dedicated Accounting Manager and Controller who are responsible for working together to ensure timely reconciliation of balance sheet accounts and standard desk procedures for the recording of regular journal entries.

Kathy Bremer

Bobbi Cleveland

Ben Collier

Joni Deus

Stacey French-Lee

Kevin Hamada

Talbert Hill

Brian Holmes

Jackie Hopkins

Safia Icgoren

Lori Kaczynski

Jesse Killings

Andrew McConnell

Ursula McNeill

John Morabito

Obi Okwara

Lizz Patrick

John Pelick

Akin Tuboku-Metzger

Dr. Yasmin Tyler-Hill

Kathryn Valentine

Kay Vermeulen

Patrick Warren

Furthermore, an accounting calendar is in place to record, monitor and report on the close procedures associated with financial reporting. These procedures will be added to the Finance's department policy and procedures manual. Lastly, the Chief Financial Officer, Accounting Manager, and Controller will meet monthly to walk through the reconciliation and month end close of all accounts to ensure the timeliness and accuracy of balances, with particular attention paid to cash, pledges receivables, and accruals, which have a large volume of transactions. The reconciliation process will also include a monthly meeting between the Development and Finance departments to crosswalk between Raiser's Edge and Financial Edge to ensure accuracy of our records. We have also hired additional temporary staff to assist with our audit preparation. The Chief Financial Officer will sign off on these reconciliations on a quarterly basis.

HONORARY BOARD MEMBERS

Anne H. Carson

Stiles Y. Conrad

Robert H. Gunn, Jr.

Janet Johnson

Timothy J. Pakenham

Virginia S. Williams

2020-002 – Preparation of the Schedule of Federal Awards

As mentioned in the previous corrective action plan, the planned finance team restructure was interrupted due to the Covid – 19 pandemic in 2020 which still persist until today. However, we now have in place a Chief Financial Officer providing daily supervision and guidance to the Controller who will continue to administer the recording and reporting responsibilities of our various Federal (and State) awards.

Blythe Keeler Robinson

President and CEO



In addition, the Controller has set up a Schedule of Federal Awards tracker to be updated and checked on a monthly basis.

Additionally, the finance team will meet monthly with other departments to guarantee the receipt of any new federal grant awards are captured on the SEFA throughout the fiscal year and verified for accuracy during the annual audit preparation period.

Section III– Federal Award Findings and Questioned Costs Section

2020-003 – Reporting

The disruption caused by the pandemic and the shortage of dedicated staff led to the failure to timely report the quarterly SF-425. The timely reporting has been assigned to the Controller and the associated filing dates will be included in an accounting calendar within Microsoft Outlook which is reviewed by the Chief Financial Officer and signed off prior to submittal in the Head Start Enterprise System.

2020-004 - Cash Management

We now have a permanent Chief Financial Officer who has evaluated the current method by which we apportion annual grant revenue evenly over twelve months, and he has concluded we have the proper controls in place to ensure that drawdowns match the expenditures, but the timing and reconciliation of the true up needs to be addressed at the structural level related to our annual cost allocation review. The Chief Financial Officer, Controller and Accounting Manager will meet monthly to compare Head Start draw down amounts to expenditures to ensure revenue is recorded upon, and matched to, past expenditures incurred by centers or utilized within three days of such draw downs. The Finance department is also upgrading its financial management system to a cloud based version which will provide better reporting and data analysis tools to correct this finding. Quarterly adjustments will still be necessary.

2020-005 – Allowable Cost/ Activities Allowed

Sheltering Arms

The two charges to the Head Start grant that may not have followed cost principles will be addressed by the Accounting Manager notifying the Chief Financial Officer of any multi-year subscriptions that need to be paid over multiple years instead of being charged in its entirety in the current year. Grant consultant invoices will be monitored by accounts payable staff to ensure correct coding to prevent potential unallowable costs and or activities.

Sincerely,

Blythe Keeler Robinson
President & CEO