

THE SHELTERING ARMS, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021
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 Consolidated Financial Statements

Opinion

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, 2022 and 2021, 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.

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern within one year after the date of this report.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 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 consolidated financial statements. Such information is 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. Such information has been subjected to the auditing procedures applied in the audits 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 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 May 9, 2024 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

Atlanta, Georgia
May 9, 2024

THE SHELTERING ARMS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

ASSETS

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 3,143,601	\$ 3,223,417
Cash and cash equivalents - restricted	390,571	401,528
Interest reserve	56,500	101,700
Government grants receivable	341,336	265,839
Unconditional promises to give	65,625	120,273
Prepaid expenses	312,065	2,098
Investments	6,198,951	7,233,688
Property and equipment, net	25,652,773	25,825,723
Notes receivable	6,448,530	6,448,530
Total Assets	\$ 42,609,952	\$ 43,622,796

LIABILITIES AND NET ASSETS

Accounts payable	\$ 871,966	\$ 108,643
Accrued payroll	551,090	493,946
Accrued expenses and other liabilities	602,323	71,037
Deferred revenue	497,464	488,453
Line of credit	-	998,778
Notes payable, net of debt issuance costs	13,370,578	12,456,656
Total Liabilities	15,893,421	14,617,513
 Net Assets		
Without donor restrictions		
Undesignated	8,470,939	7,883,579
Invested in property and equipment, net of related debt	12,282,195	13,369,067
	20,753,134	21,252,646
With donor restrictions	5,963,397	7,752,637
Total Net Assets	26,716,531	29,005,283
	\$ 42,609,952	\$ 43,622,796

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, 2022

	<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	\$ 24,341,995	\$ -	\$ 24,341,995
United Way	641	175,000	175,641
Contributions	1,042,873	582,953	1,625,826
Contributions of nonfinancial assets	717,276	-	717,276
Corporate and foundation grants	183,915	-	183,915
Net assets released from restrictions:			
United Way	153,125	(153,125)	-
Satisfaction of program restrictions	1,654,252	(1,654,252)	-
Total Public Support	<u>28,094,077</u>	<u>(1,049,424)</u>	<u>27,044,653</u>
Revenues and Gains (Losses):			
Rental income	75,205	-	75,205
Parent tuition	2,914,208	-	2,914,208
Training and fees	24,001	-	24,001
Investment loss, net	(78,729)	(739,816)	(818,545)
Miscellaneous revenue	88,550	-	88,550
Total Revenues and Gains	<u>3,023,235</u>	<u>(739,816)</u>	<u>2,283,419</u>
Total Public Support, Revenues and Gains	<u>31,117,312</u>	<u>(1,789,240)</u>	<u>29,328,072</u>
Expenses			
Program services	26,861,192	-	26,861,192
Management and general	4,063,365	-	4,063,365
Fundraising	692,267	-	692,267
Total Expenses	<u>31,616,824</u>	<u>-</u>	<u>31,616,824</u>
Change in Net Assets	(499,512)	(1,789,240)	(2,288,752)
Net Assets, Beginning of Year	<u>21,252,646</u>	<u>7,752,637</u>	<u>29,005,283</u>
Net Assets, End of Year	<u>\$ 20,753,134</u>	<u>\$ 5,963,397</u>	<u>\$ 26,716,531</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, 2021

	<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	\$ 18,599,038	\$ -	\$ 18,599,038
United Way	-	175,000	175,000
Contributions	949,371	429,952	1,379,323
Contributions of nonfinancial assets	717,276	-	717,276
Corporate and foundation grants	283,016	-	283,016
Net assets released from restrictions:			
United Way	221,375	(221,375)	-
Satisfaction of program restrictions	864,474	(864,474)	-
Total Public Support	<u>21,634,550</u>	<u>(480,897)</u>	<u>21,153,653</u>
Revenues and Gains:			
Rental income	91,503	-	91,503
Parent tuition	3,128,299	-	3,128,299
Training and fees	18,421	-	18,421
Investment return, net	92,773	596,892	689,665
Miscellaneous revenue	252,570	-	252,570
Gain on sale of building	1,077,269	-	1,077,269
Total Revenues and Gains	<u>4,660,835</u>	<u>596,892</u>	<u>5,257,727</u>
Total Public Support, Revenues and Gains	<u>26,295,385</u>	<u>115,995</u>	<u>26,411,380</u>
Expenses			
Program services	22,008,211	-	22,008,211
Management and general	2,949,653	-	2,949,653
Fundraising	619,252	-	619,252
Total Expenses	<u>25,577,116</u>	<u>-</u>	<u>25,577,116</u>
Change in Net Assets	718,269	115,995	834,264
Net Assets, Beginning of Year	<u>20,534,377</u>	<u>7,636,642</u>	<u>28,171,019</u>
Net Assets, End of Year	<u>\$ 21,252,646</u>	<u>\$ 7,752,637</u>	<u>\$ 29,005,283</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, 2022

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 14,946,107	\$ 1,852,322	\$ 382,577	\$ 17,181,006
Payroll taxes	1,074,667	147,212	31,437	1,253,316
Employee benefits	2,179,049	165,572	32,291	2,376,912
Professional fees	1,750,579	1,028,843	230,650	3,010,072
Food and kitchen supplies	1,086,858	-	-	1,086,858
Supplies	817,442	36,645	6,854	860,941
Telephone	268,350	48,508	4,744	321,602
Postage	1,230	2,384	638	4,252
Repairs and maintenance	1,819,677	76,320	-	1,895,997
Rent	719,876	-	-	719,876
Utilities	502,966	17,118	-	520,084
Transportation costs	45,302	10,603	-	55,905
Conferences and meetings	104,231	75,677	3,076	182,984
Membership dues	5,405	4,929	-	10,334
Subscriptions	825	32,739	-	33,564
Insurance	239,419	32,201	-	271,620
Training	51,059	94,304	-	145,363
Permits and fees	37,155	64,725	-	101,880
Interest expense	207,047	122,276	-	329,323
Depreciation	1,003,948	250,987	-	1,254,935
Total Expenses	<u>\$ 26,861,192</u>	<u>\$ 4,063,365</u>	<u>\$ 692,267</u>	<u>\$ 31,616,824</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, 2021

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 11,612,266	\$ 1,497,254	\$ 308,277	\$ 13,417,797
Payroll taxes	938,277	112,688	24,110	1,075,075
Employee benefits	2,390,373	98,803	26,646	2,515,822
Professional fees	1,087,015	508,293	254,532	1,849,840
Food and kitchen supplies	879,226	-	-	879,226
Supplies	594,270	18,763	2,260	615,293
Telephone	218,174	30,661	2,163	250,998
Postage	737	1,239	275	2,251
Repairs and maintenance	1,695,110	56,977	-	1,752,087
Rent	720,083	1,320	-	721,403
Utilities	475,016	7,397	-	482,413
Transportation costs	45,749	4,840	-	50,589
Conferences and meetings	32,975	63,229	989	97,193
Membership dues	19,294	6,595	-	25,889
Subscriptions	2,850	11,672	-	14,522
Insurance	198,088	43,793	-	241,881
Training	1,347	-	-	1,347
Permits and fees	10,205	90,816	-	101,021
Interest expense	202,323	174,105	-	376,428
Depreciation	884,833	221,208	-	1,106,041
Total Expenses	<u>\$ 22,008,211</u>	<u>\$ 2,949,653</u>	<u>\$ 619,252</u>	<u>\$ 25,577,116</u>

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, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (2,288,752)	\$ 834,264
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,254,935	1,106,041
Amortization on debt issuance cost	13,922	13,922
Net realized and unrealized gain (loss) on investments	842,294	(676,917)
Gain on sale of building	-	(1,077,269)
(Increase) decrease in assets:		
Grants receivable	(75,497)	519,514
Unconditional promises to give	54,648	114,736
Prepaid expenses	(309,967)	5,049
Increase (decrease) in liabilities:		
Accounts payable	763,323	(135,903)
Accrued payroll	57,144	22,677
Accrued expenses and other liabilities	531,286	66,986
Deferred Revenue	9,011	488,453
Total adjustments	<u>3,141,099</u>	<u>447,289</u>
Net cash provided by operating activities	<u>852,347</u>	<u>1,281,553</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(1,081,985)	(822,317)
Proceeds from sale of property and equipment	-	1,196,653
Proceeds from sale of investments	<u>192,443</u>	<u>-</u>
Net cash provided (required) by investing activities	<u>(889,542)</u>	<u>374,336</u>
Cash Flows from Financing Activities:		
Principal payments on line of credit	<u>(98,778)</u>	<u>(801,222)</u>
Net cash required by financing activities	<u>(98,778)</u>	<u>(801,222)</u>
Change in Cash, Cash Equivalents, Restricted Cash, and Interest Reserve	(135,973)	854,667
Cash, Cash Equivalents, Restricted Cash, and Interest Reserve, Beginning of Year	<u>3,726,645</u>	<u>2,871,978</u>
Cash, Cash Equivalents, Restricted Cash, and Interest Reserve, End of Year	<u>\$ 3,590,672</u>	<u>\$ 3,726,645</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 315,401</u>	<u>\$ 362,506</u>

Non-Cash Financing Activity:

During 2022, the Center refinanced the balance on line of credit into the notes payable in the amount of \$1,000,000.

Reconciliation of Cash, Restricted Cash and Interest Reserve to Financial Statements:

Cash and cash equivalents	\$ 3,143,601	\$ 3,223,417
Cash and cash equivalents - restricted	390,571	401,528
Interest reserve	<u>56,500</u>	<u>101,700</u>
	<u>\$ 3,590,672</u>	<u>\$ 3,726,645</u>

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, 2022 AND 2021

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”).

Adoption of New Accounting Policies

Effective January 1, 2022, the Center adopted Accounting Standards Update (“ASU”) 2016-02, *Leases* (Topic 842). The objective of this ASU is to increase transparency and comparability in financial reporting by requiring consolidated statements of financial position recognition of leases and note disclosure of certain information about lease arrangements. The Center adopted ASU 2016-02 using the modified retrospective method. This method allows the standard to be applied retrospectively through a cumulative catch-up adjustment to net assets recognized upon adoption, if necessary. Adoption of ASU 2016-02 did not result in changes to the Center’s beginning net assets balance nor did it have any material impact on the consolidated financial statements.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Policies (Continued)

In addition, effective January 1, 2022, the Center adopted ASU 2020-07, Not-for-Profit Entities (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU improves the transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations through enhancements to presentation and disclosure. ASU 2020-07 was issued to address certain stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by not-for-profits, as well as the amount of those contributions used in an entity's programs and other activities. The Center applied ASU 2020-07 on a retrospective basis.

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.
- 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, 2022 and 2021, 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 \$390,571 and \$401,528, respectively.

At December 31, 2022 and 2021, 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 \$56,500 and \$101,700, respectively.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2022 and 2021, unconditional promises to give were \$65,625 and \$120,273, respectively, and are expected to be collected in 2023. 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 CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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, 2022 and 2021 were as follows:

	<u>2022</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 92	\$ -	\$ -	\$ 92
Mutual funds	326,795	-	-	326,795
Equity securities	3,377,286	-	-	3,377,286
Bond funds	<u>2,494,778</u>	<u>-</u>	<u>-</u>	<u>2,494,778</u>
	<u>\$ 6,198,951</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,198,951</u>

**THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measured on a Recurring Basis (Continued)

	<u>2021</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 200,978	\$ -	\$ -	\$ 200,978
Mutual funds	305,969	-	-	305,969
Equity securities	4,139,955	-	-	4,139,955
Bond funds	<u>2,586,786</u>	<u>-</u>	<u>-</u>	<u>2,586,786</u>
	<u>\$ 7,233,688</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,233,688</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 consolidated 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 CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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, 2022 and 2021, the Center did not have any endowments that were underwater.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in endowment net assets for the years ended December 31, 2022 and 2021 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2020	\$ 746,538	\$ 5,810,233	\$ 6,556,771
Contributions	104	-	104
Investment return, net	79,921	596,892	676,813
Reclassification of restriction	<u>27,136</u>	<u>(27,136)</u>	<u>-</u>
Endowment net assets, December 31, 2021	853,699	6,379,989	7,233,688
Investment loss, net	(102,101)	(739,816)	(841,917)
Amounts used in operations	<u>-</u>	<u>(192,820)</u>	<u>(192,820)</u>
Endowment net assets, December 31, 2022	<u>\$ 751,598</u>	<u>\$ 5,447,353</u>	<u>\$ 6,198,951</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 2022 and 2021.

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.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Land	\$ 1,855,473	\$ 1,855,473
Buildings and improvements	36,268,157	34,962,030
Equipment	7,570,377	7,593,983
Vehicles	275,429	225,966
Construction in progress	-	250,000
	<u>45,969,436</u>	<u>44,887,452</u>
Less: accumulated depreciation	<u>(20,316,663)</u>	<u>(19,061,729)</u>
	<u>\$ 25,652,773</u>	<u>\$ 25,825,723</u>

Depreciation expense for the years ended December 31, 2022 and 2021 was \$1,254,935 and \$1,106,041, 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

Facility Leases

The Center leased classroom space at two Center locations, expiring in different years ranging from 2026 to 2030, at a rate ranging from of \$1 to \$10 payable per year per the lease agreements. The value of the in-kind rent donated for the years ended December 31, 2022 and 2021 was estimated to be approximately \$717,000 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.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE E – LEASING TRANSACTIONS (Continued)

Operating Lease Income

The Center has a cancelable agreement to rent office and classroom space in one of its neighborhood centers. Rental income during 2022 and 2021 was approximately \$75,000 and \$92,000, respectively. 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. The Center's contribution for the years ended December 31, 2022 and 2021 was approximately \$144,000, respectively.

NOTE G – NOTES PAYABLE AND LINE OF CREDIT

Notes Payable

Notes payable include the following at December 31:

	<u>2022</u>	<u>2021</u>
Term note payable (a)	\$ 4,530,000	\$ 3,630,000
Notes payable under New Market Tax Credit (See Note H)	<u>9,300,000</u>	<u>9,300,000</u>
	13,830,000	12,930,000
Debt issuance costs	<u>(459,422)</u>	<u>(473,344)</u>
	<u>\$ 13,370,578</u>	<u>\$ 12,456,656</u>

(a) The Center has a note payable with a financial institution with an outstanding balance at December 31, 2022 of \$4,530,000. The note has a fixed interest rate of 5.75%, 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 August 31, 2032 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, 2022, 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.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

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

Notes Payable (Continued)

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

2023	\$	100,000
2024		100,000
2025		100,000
2026		100,000
2027		100,000
Thereafter		13,330,000
	\$	<u>13,830,000</u>

Line of Credit

The Center had a \$1,000,000 line of credit with a financial institution. The line of credit bore interest at prime less 0.75%, an effective rate of 2.75% at December 31, 2021. The line of credit was closed on September 23, 2022 and the outstanding balance of \$1,000,000 was added to the in the term note payable. Outstanding borrowings under the line of credit were \$998,778 at December 31, 2021.

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 \$56,500 and \$101,700 at December 31, 2022 and 2021, 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, 2022 AND 2021**

NOTE I – NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Program support	\$ -	\$ 389,144
Tuition	428,544	917,879
United Way	87,500	65,625
	<u>\$ 516,044</u>	<u>\$ 1,372,648</u>
Subject to spending policy and appropriation:		
Investment in perpetuity (including accumulated amounts above original gift amount of \$3,890,967 in 2022 and 2021), which, once appropriated, is expendable to support:		
Programs	1,472,233	1,885,821
Scholarships	2,386,222	2,696,857
Capital improvements	944,003	1,067,826
General support	644,895	729,485
	<u>5,447,353</u>	<u>6,379,989</u>
Total net assets with donor restrictions	<u>\$ 5,963,397</u>	<u>\$ 7,752,637</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>2022</u>	<u>2021</u>
Program Support	\$ 1,427,144	\$ 677,338
Scholarships	227,108	160,000
United Way Impact	153,125	221,375
Capital improvements	-	27,136
	<u>\$ 1,807,377</u>	<u>\$ 1,085,849</u>

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE J – 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>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 3,143,601	\$ 3,223,417
Government grants receivable	341,336	265,839
Unconditional promises to give	65,625	120,273
Investments	<u>751,598</u>	<u>853,699</u>
	<u>\$ 4,302,160</u>	<u>\$ 4,463,228</u>

NOTE K – SUBSEQUENT EVENT

Subsequent to December 31, 2022, on the seventh anniversary of the New Market Tax Credit, the investor exercised its put option and the transaction unwound.

Management has evaluated subsequent events through May 9, 2024, is the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION
REPORTS AND OTHER SCHEDULES AND INFORMATION
AS REQUIRED BY THE UNIFORM GUIDANCE
YEAR ENDED DECEMBER 31, 2021

**THE SHELTERING ARMS, INC. AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2021**

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	\$ 1,291,872
Total U.S. Department of Agriculture			<u>1,291,872</u>
U.S. Department of Health and Human Services:			
Direct programs:			
Head Start/Early Head Start	93.600		9,515,000
Head Start/Early Head Start	93.600		1,728,247
COVID 19: Headstart	93.600		<u>250,000</u>
Total Head Start/Early Head Start			<u>11,493,247</u>
Total Federal Expenditures			<u>\$ 12,785,119</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, 2021

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, 2021.

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, 2021 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

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*.

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

Atlanta, GA
May 9, 2024



**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

Opinion

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, 2021. 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.

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, 2021.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); 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"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Center's compliance with the types of compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Center's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the types of compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Center's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the types of compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Center's compliance with the requirements of the federal program as a whole.

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Center's compliance with the types of compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

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 2021-001. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Center's response to the noncompliance finding identified in our compliance audit 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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-001, to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Center's response to the noncompliance finding identified in our compliance audit 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

Atlanta, GA
May 9, 2024

**THE SHELTERING ARMS, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2021**

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?

_____ **Yes** X **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?

 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

10.558

Name of Federal Program or Cluster

Head Start/Early Head Start

Child and Adult Care Food Program

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. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2021**

Section II – Financial Statement Findings Section

None noted

Section III – Federal Award Findings and Questioned Costs Section

2021-001 Finding: Reporting

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

Grant: *Head Start/Early Head Start*

CFDA Number: 93.600

Grant Number: 04CH011659/21/22

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 2021, 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.

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

**THE SHELTERING ARMS, INC. AND SUBSIDIARY
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Section IV – Schedule of Prior Audit Findings and Questioned Costs

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.

Update: Finding has been resolved

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 Center does not have adequate controls over the preparation of the schedule of federal awards.

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

Update: Finding has been resolved

**THE SHELTERING ARMS, INC. AND SUBSIDIARY
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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.

Update: Finding has been updated to 2021-001.

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.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY
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2020-004 Cash Management (Continued)

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.

Update: Finding has been resolved

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.

Update: Finding has been resolved