

THE SHELTERING ARMS, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022
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, 2023 and 2022, 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, 2023 and 2022, 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.

Emphasis of Matter

As discussed in Note K 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 K. Our opinion is not modified with respect to that matter.

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.

Responsibilities of Management for the Consolidated Financial Statements (Continued)

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 September 26, 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.

Atlanta, Georgia
September 26, 2024

Smith and Howard

THE SHELTERING ARMS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

ASSETS

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 4,981,473	\$ 3,143,601
Cash and cash equivalents - restricted	-	390,571
Interest reserve	-	56,500
Government grants receivable	252,736	341,336
Unconditional promises to give	135,500	65,625
Prepaid expenses	145,992	312,065
Investments	6,818,524	6,198,951
Property and equipment, net	25,753,234	25,652,773
Notes receivable	-	6,448,530
Total Assets	\$ 38,087,459	\$ 42,609,952

LIABILITIES AND NET ASSETS

Accounts payable	\$ 588,880	\$ 871,966
Accrued payroll	1,946,647	551,090
Accrued expenses and other liabilities	260,720	602,323
Deferred revenue	14,969	497,464
Notes payable, net of debt issuance costs	4,330,000	13,370,578
Total Liabilities	7,141,216	15,893,421
 Net Assets		
Without donor restrictions		
Undesignated	1,918,271	8,470,939
Invested in property and equipment, net of related debt	21,423,234	12,282,195
	23,341,505	20,753,134
With donor restrictions	7,604,738	5,963,397
Total Net Assets	30,946,243	26,716,531
	\$ 38,087,459	\$ 42,609,952

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, 2023

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Public Support and Revenues and Gains:			
Public Support:			
Government grants and fees	\$ 24,961,786	\$ 1,469,204	\$ 26,430,990
United Way	-	382,000	382,000
Contributions	3,839,167	323,478	4,162,645
Contributions of nonfinancial assets	717,276	-	717,276
Corporate and foundation grants	474,341	-	474,341
Net assets released from restrictions:			
United Way	278,500	(278,500)	-
Satisfaction of program restrictions	<u>964,862</u>	<u>(964,862)</u>	<u>-</u>
Total Public Support	<u>31,235,932</u>	<u>931,320</u>	<u>32,167,252</u>
Revenues and Gains:			
Rental income	116,985	-	116,985
Special events	289,770	-	289,770
Parent tuition	2,835,606	-	2,835,606
Training and fees	560	-	560
Investment return, net	245,827	710,021	955,848
New Market Tax Credit Benefit	2,392,048	-	2,392,048
Miscellaneous revenue	<u>441,563</u>	<u>-</u>	<u>441,563</u>
Total Revenues and Gains	<u>6,322,359</u>	<u>710,021</u>	<u>7,032,380</u>
Total Public Support, Revenues and Gains	<u>37,558,291</u>	<u>1,641,341</u>	<u>39,199,632</u>
Expenses			
Program services	29,401,616	-	29,401,616
Management and general	4,710,618	-	4,710,618
Fundraising	<u>857,686</u>	<u>-</u>	<u>857,686</u>
Total Expenses	<u>34,969,920</u>	<u>-</u>	<u>34,969,920</u>
Change in Net Assets	2,588,371	1,641,341	4,229,712
Net Assets, Beginning of Year	<u>20,753,134</u>	<u>5,963,397</u>	<u>26,716,531</u>
Net Assets, End of Year	<u>\$ 23,341,505</u>	<u>\$ 7,604,738</u>	<u>\$ 30,946,243</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, 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	<u>1,654,252</u>	<u>(1,654,252)</u>	<u>-</u>
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	<u>88,550</u>	<u>-</u>	<u>88,550</u>
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	<u>692,267</u>	<u>-</u>	<u>692,267</u>
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 FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2023

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$14,754,665	\$1,738,338	\$459,023	\$ 16,952,026
Payroll taxes	1,132,121	155,746	34,561	1,322,428
Employee benefits	2,336,078	198,479	57,725	2,592,282
Professional fees	3,200,978	1,389,657	283,213	4,873,848
Food and kitchen supplies	1,383,203	45	-	1,383,248
Supplies	1,385,372	45,815	14,422	1,445,609
Telephone	226,949	44,461	5,665	277,075
Postage	785	3,426	201	4,412
Repairs and maintenance	1,819,187	243,105	-	2,062,292
Rent	719,552	75	-	719,627
Utilities	595,006	4,482	-	599,488
Transportation costs	92,286	13,699	-	105,985
Conferences and meetings	57,909	46,996	2,876	107,781
Membership dues	1,748	4,987	-	6,735
Subscriptions	94,589	48,468	-	143,057
Insurance	218,068	73,206	-	291,274
Training	147,796	157,766	-	305,562
Permits and fees	82,876	17,450	-	100,326
Interest expense	89,874	258,774	-	348,648
Depreciation	1,062,574	265,643	-	1,328,217
Total Expenses	<u>\$ 29,401,616</u>	<u>\$ 4,710,618</u>	<u>\$ 857,686</u>	<u>\$ 34,969,920</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 STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 4,229,712	\$ (2,288,752)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,328,217	1,254,935
Amortization on debt issuance cost	-	13,922
Net realized and unrealized (gain) loss on investments	(814,579)	842,294
New Market Tax Credit benefit	(2,392,048)	-
(Increase) decrease in assets:		
Grants receivable	88,600	(75,497)
Unconditional promises to give	(69,875)	54,648
Prepaid expenses	166,073	(309,967)
Increase (decrease) in liabilities:		
Accounts payable	(283,086)	763,323
Accrued payroll	1,395,557	57,144
Accrued expenses and other liabilities	(341,603)	531,286
Deferred Revenue	(482,495)	9,011
Total adjustments	<u>(1,405,239)</u>	<u>3,141,099</u>
Net cash provided by operating activities	<u>2,824,473</u>	<u>852,347</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(1,428,678)	(1,081,985)
Proceeds from sale of investments	<u>195,006</u>	<u>192,443</u>
Net cash required by investing activities	<u>(1,233,672)</u>	<u>(889,542)</u>
Cash Flows from Financing Activities:		
Principal payments on line of credit	<u>(200,000)</u>	<u>(98,778)</u>
Net cash required by financing activities	<u>(200,000)</u>	<u>(98,778)</u>
Change in Cash, Cash Equivalents, Restricted Cash, and Interest Reserve	1,390,801	(135,973)
Cash, Cash Equivalents, Restricted Cash, and Interest Reserve, Beginning of Year	<u>3,590,672</u>	<u>3,726,645</u>
Cash, Cash Equivalents, Restricted Cash, and Interest Reserve, End of Year	<u>\$ 4,981,473</u>	<u>\$ 3,590,672</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 348,648</u>	<u>\$ 224,599</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 and Cash Equivalents, Restricted Cash and Interest Reserve to Financial Statements:

Cash and cash equivalents	\$ 4,981,473	\$ 3,143,601
Cash and cash equivalents - restricted	-	390,571
Interest reserve	-	56,500
	<u>\$ 4,981,473</u>	<u>\$ 3,590,672</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, 2023 AND 2022

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

During 2023, the Center adopted the requirements of Accounting Standards Update (“ASU”) 2016-13, Financial Instruments – Credit Losses Accounting Standards Codification (“ASC”) 326. This ASU introduces a “current expected credit loss” (“CECL”) model which requires all expected credit losses for financial instruments held at the reporting date to be based on historical experience, current conditions, and reasonable supportable forecasts. The CECL model replaces the existing incurred loss method and is applicable to the measurement of credit losses of financial assets. Under the standard, disclosures are required to provide users of the consolidated financial statements with useful information in analyzing an entity’s exposure to credit risk and the measurement of credit losses. Financial assets held by the Center that are subject to the guidance in ASC 326 were receivables. There was no material impact to the consolidated financial statements or footnotes upon adoption of this new accounting policy.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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.

At December 31, 2022, 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.

During 2023, the Center's New Market Tax Credit transaction was settled and the remaining cash restrictions noted above were released.

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 SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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, 2023 and 2022, unconditional promises to give were \$135,500 and \$65,625, respectively, and are expected to be collected within one year. 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 statements of activities and changes in net assets as investment return.

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:

**THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measured on a Recurring Basis (Continued)

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, 2023 and 2022 were as follows:

	<u>2023</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 1,418	\$ -	\$ -	\$ 1,418
Mutual funds	326,663	-	-	326,663
Equity securities	3,835,962	-	-	3,835,962
Bond funds	<u>2,654,481</u>	<u>-</u>	<u>-</u>	<u>2,654,481</u>
	<u>\$ 6,818,524</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,818,524</u>
	<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>

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

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2023 and 2022, the Center did not have any endowments that were underwater.

Changes in endowment net assets for the years ended December 31, 2023 and 2022 are as follows:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</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	751,598	5,447,353	6,198,951
Contributions	28,638	-	28,638
Investment return, net	104,557	710,021	814,578
Amounts used in operations	<u>(10,635)</u>	<u>(213,008)</u>	<u>(223,643)</u>
Endowment net assets, December 31, 2023	<u>\$ 874,158</u>	<u>\$ 5,944,366</u>	<u>\$ 6,818,524</u>

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

The Center capitalizes all expenditures for property and equipment in excess of \$5,000. Purchased property and equipment is carried at cost. Donated property and equipment is carried at the approximate fair market value at the date of the donation. Depreciation is computed on the straight-line method over the estimated useful lives of the respective assets. Furniture and equipment is depreciated over useful lives of 5 to 15 years, vehicles over 7 to 10 years, building improvements over 10 to 40 years, and buildings over 40 to 50 years. Upon retirement or disposal of property and equipment, the costs and related accumulated depreciation are eliminated, and any gain or loss is included in the accompanying consolidated statements 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 2023 and 2022.

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.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statements 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, 2020.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Land	\$ 1,855,473	\$ 1,855,473
Buildings and improvements	37,250,526	36,268,157
Equipment	7,824,892	7,570,377
Vehicles	467,224	275,429
	<u>47,398,115</u>	<u>45,969,436</u>
Less: accumulated depreciation	<u>(21,644,881)</u>	<u>(20,316,663)</u>
	<u>\$ 25,753,234</u>	<u>\$ 25,652,773</u>

Depreciation expense for the years ended December 31, 2023 and 2022 was \$1,328,217 and \$1,254,935, respectively.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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 NMTC program expired and the two investment fund balances were repaid in full in December 2023.

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, 2023 and 2022 was estimated to be approximately \$717,000 each year and is included within contributions on the consolidated statements of activities and changes in net assets and rent within the statements 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.

Operating Lease Income

The Center has a cancelable agreement to rent office and classroom space in one of its neighborhood centers. Rental income during 2023 and 2022 was approximately \$117,000 and \$75,000, 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, 2023 and 2022 was approximately \$168,000 and \$144,000, respectively.

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE G – NOTES PAYABLE AND LINE OF CREDIT

Notes Payable

Notes payable include the following at December 31:

	<u>2023</u>	<u>2022</u>
Term note payable (a)	\$ 4,330,000	\$ 4,530,000
Notes payable under New Market Tax Credit (See Note H)	<u>-</u>	<u>9,300,000</u>
	4,330,000	13,830,000
Debt issuance costs	<u>-</u>	<u>(459,422)</u>
	<u>\$ 4,330,000</u>	<u>\$ 13,370,578</u>

(a) The Center has a note payable with a financial institution with an outstanding balance at December 31, 2023 of \$4,330,000. 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, 2023, 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.

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

2024	\$ 100,000
2025	100,000
2026	100,000
2027	100,000
2028	100,000
Thereafter	<u>3,830,000</u>
	<u>\$ 4,330,000</u>

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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.

During fiscal year 2023, on the seventh anniversary of the New Market Tax Credit, the investor exercised its put option and the Center repaid the notes payable to the CDEs, which distributed the amount to the two investment funds, which repaid the Center’s notes receivable. The Center purchased the outstanding interest in the investment funds for a nominal amount, with the benefit recognized of \$2,392,048, net of debt issuance costs written off of \$459,422, as a gain in the consolidated statement of activities.

NOTE I – NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Program support	\$ 1,469,372	\$ -
Tuition	-	428,544
United Way	<u>191,000</u>	<u>87,500</u>
	<u>1,660,372</u>	<u>516,044</u>
Subject to spending policy and appropriation:		
Investment in perpetuity (including accumulated amounts above original gift amount of \$3,890,967 in 2023 and 2022), which, once appropriated, is expendable to support:		
Programs	2,244,046	1,472,233
Scholarships	1,936,298	2,386,222
Capital improvements	1,034,836	944,003
General support	<u>729,186</u>	<u>644,895</u>
	<u>5,944,366</u>	<u>5,447,353</u>
Total net assets with donor restrictions	<u>\$ 7,604,738</u>	<u>\$ 5,963,397</u>

THE SHELTERING ARMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE I – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

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>2023</u>	<u>2022</u>
Program Support	\$ 650,535	\$ 1,427,144
Scholarships	285,446	227,108
United Way Impact	278,500	153,125
Capital improvements	28,881	-
	<u>\$ 1,243,362</u>	<u>\$ 1,807,377</u>

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>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 4,981,473	\$ 3,143,601
Government grants receivable	252,736	341,336
Unconditional promises to give	135,500	65,625
Investments	874,158	751,598
	<u>\$ 6,243,867</u>	<u>\$ 4,302,160</u>

NOTE K – 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. The Center owns four properties, which at last appraisal, were valued at \$18,000,000. The Center has been reviewing the options in the event of additional liquidity needs through mortgage and loan options with financial institutions and increased fundraising requests.

NOTE L – SUBSEQUENT EVENT

Management has evaluated subsequent events through September 26, 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, 2023

**THE SHELTERING ARMS, INC. AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2023**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Listing Assistance 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	\$ 1,361,606
Total U.S. Department of Agriculture			<u>1,361,606</u>
U.S. Department of Health and Human Services:			
Direct programs:			
Head Start/Early Head Start	93.600		10,302,950
Head Start/Early Head Start	93.600		2,103,876
COVID 19: Head Start	93.600		19,290
COVID 19: Head Start	93.600		47,057
COVID 19: Head Start	93.600		<u>1,119,593</u>
Total Head Start/Early Head Start			<u>13,592,766</u>
Total Federal Expenditures			<u>\$ 14,954,372</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, 2023

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, 2023.

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, 2023 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.

Atlanta, GA
September 26, 2024

Smith and Howard



**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, 2023. 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, 2023.

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 2023-001. 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 2023-001, 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
September 26, 2024

**THE SHELTERING ARMS, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2023**

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

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. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2023**

Section II – Financial Statement Findings Section

None noted.

Section III – Federal Award Findings and Questioned Costs Section

2023-001 Finding: Reporting

Funding Agency: U.S. Department of Health and Human Services
Grant: *Head Start/Early Head Start*
CFDA Number: 93.600
Grant Number: 04CH011659/23

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 2023, 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

Section IV – Schedule of Prior Audit Findings and Questioned Costs

2022-001 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.

**THE SHELTERING ARMS, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2023**

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

2022-001 Finding: Reporting (Continued)

Condition: For awards with budget periods ending in 2022, the financial reporting forms SF-425s were later than prescribed due dates.

Status: Finding updated as 2023-001.