



**Financial Statements
and Supplemental Information**

The Home for Little Wanderers

June 30, 2022 and 2021



THE HOME FOR LITTLE WANDERERS

Financial Statements and Supplemental Information

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Mayer Hoffman McCann P.C.
500 Boylston Street ■ Boston, MA 02116
Main: 617.761.0600 ■ Fax: 617.761.0601
www.cbiz.com/newengland

Independent Auditors' Report

The Board of Directors
The Home for Little Wanderers
Boston, Massachusetts

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Home for Little Wanderers (the "Home"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Home as of June 30, 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.

Emphasis of Matter About the Entity's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Home will continue as a going concern. As discussed in Note 1 to the financial statements, the Home has suffered recurring losses from operations and was in violation of their debt covenants as of June 30, 2022. Management believes these losses were the result of the COVID-19 pandemic and challenges with workforce staffing. The Home's lenders subsequently waived any violations of their debt covenants through June 30, 2023, but the Home will likely require further adjustments to its banking arrangements within one year of the date of this report. This creates an uncertainty for the Home which, if not alleviated, would impact their ability to continue as a going concern. Management's evaluation of the events and conditions and Management's plans regarding these matters are also described in Note 1. The financial statements have not been adjusted as a result of this uncertainty. Our opinion is not modified with respect to this matter.

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 of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Home 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 Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Home's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.



Auditors' Responsibilities for the Audit of the Financial Statements

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

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 15, 2023 on our consideration of the Home'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 solely 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 the effectiveness of the Home's 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 Home's internal control over financial reporting and compliance.

Maya Hoffman McCann P.C.

Boston, Massachusetts
May 15, 2023

THE HOME FOR LITTLE WANDERERS

Statements of Financial Position

June 30,

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,290,465	\$ 1,805,372
Cash - restricted funds	109,260	68,328
Accounts receivable, net of allowance for doubtful accounts of \$5,757,746 and \$549,432 at June 30, 2022 and 2021, respectively	9,914,529	9,318,312
Contributions and grants receivable, net	617,641	535,283
Investment income receivable	22,452	21,317
Investments	3,420,000	3,600,000
Prepaid expenses and other current assets	<u>1,552,634</u>	<u>1,778,666</u>
Total current assets	16,926,981	17,127,278
Contributions and grants receivable, net	-	352,242
Investments	61,407,604	75,367,704
Beneficial interest in perpetual trusts	13,389,354	16,193,947
Property, plant and equipment, net	<u>37,889,742</u>	<u>39,313,505</u>
Total assets	\$ <u>129,613,681</u>	\$ <u>148,354,676</u>
Liabilities and Net Assets		
Current liabilities:		
Line of credit	\$ 8,652,696	\$ 6,114,742
Current portion of long-term debt	1,155,371	1,143,333
Accounts payable, accrued expenses, and other current liabilities	8,952,105	7,162,018
Client funds	<u>62,972</u>	<u>46,657</u>
Total current liabilities	18,823,144	14,466,750
Long-term debt, net of current portion	16,671,019	17,824,778
Other liabilities	<u>723,772</u>	<u>780,312</u>
Total liabilities	36,217,935	33,071,840
Net assets:		
Without donor restrictions	44,316,173	57,950,522
With donor restrictions	<u>49,079,573</u>	<u>57,332,314</u>
Total net assets	93,395,746	115,282,836
Total liabilities and net assets	\$ <u>129,613,681</u>	\$ <u>148,354,676</u>

See accompanying notes to the financial statements.

THE HOME FOR LITTLE WANDERERS

Statements of Activities

Years Ended June 30,

	2022			2021		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Revenues and other support:						
Program revenue	\$ 52,063,522	\$ -	\$ 52,063,522	\$ 52,567,286	\$ -	\$ 52,567,286
Contributions	7,193,551	147,904	7,341,455	8,067,479	1,004,384	9,071,863
Utilization of board approved spending policy	3,600,000	-	3,600,000	3,700,000	-	3,700,000
In-kind revenue	218,345	-	218,345	118,178	-	118,178
Other operating revenue	340,678	-	340,678	59,428	-	59,428
Net assets released from restrictions	461,371	(461,371)	-	228,277	(228,277)	-
Total revenues and other support	63,877,467	(313,467)	63,564,000	64,740,648	776,107	65,516,755
Operating expenses:						
Programs	54,298,619	-	54,298,619	56,527,777	-	56,527,777
Administrative and general	18,950,661	-	18,950,661	8,652,064	-	8,652,064
Fundraising	2,316,164	-	2,316,164	2,079,776	-	2,079,776
Total operating expenses	75,565,444	-	75,565,444	67,259,617	-	67,259,617
Change in net assets from operations	(11,687,977)	(313,467)	(12,001,444)	(2,518,969)	776,107	(1,742,862)
Non-operating income (expense):						
Net investment return	(2,323,702)	(4,676,006)	(6,999,708)	8,382,474	10,852,004	19,234,478
Board approved spending policy appropriation	(336,732)	(3,263,268)	(3,600,000)	(744,186)	(2,955,814)	(3,700,000)
Bequests	714,062	-	714,062	604,113	-	604,113
Other non-operating expenses	-	-	-	(171,441)	-	(171,441)
Total non-operating income (expense)	(1,946,372)	(7,939,274)	(9,885,646)	8,070,960	7,896,190	15,967,150
Change in net assets before fund re-designation	(13,634,349)	(8,252,741)	(21,887,090)	5,551,991	8,672,297	14,224,288
Endowment fund re-designation	-	-	-	500,000	(500,000)	-
Change in net assets	(13,634,349)	(8,252,741)	(21,887,090)	6,051,991	8,172,297	14,224,288
Net assets, beginning of year	57,950,522	57,332,314	115,282,836	51,898,531	49,160,017	101,058,548
Net assets, end of year	\$ 44,316,173	\$ 49,079,573	\$ 93,395,746	\$ 57,950,522	\$ 57,332,314	\$ 115,282,836

See accompanying notes to the financial statements.

THE HOME FOR LITTLE WANDERERS

Statements of Functional Expenses

Years Ended June 30,

	2022				2021			
	Programs	Administrative and General	Fundraising	Totals	Programs	Administrative and General	Fundraising	Totals
Operating expenses:								
Salaries and wages	\$ 32,832,058	\$ 7,337,104	\$ 1,046,188	\$ 41,215,350	\$ 35,621,038	\$ 4,270,253	\$ 1,088,066	\$ 40,979,357
Payroll taxes and employee benefits	7,976,195	1,689,420	254,638	9,920,253	8,152,347	980,591	247,904	9,380,842
Total salaries and related benefits	40,808,253	9,026,524	1,300,826	51,135,603	43,773,385	5,250,844	1,335,970	50,360,199
Depreciation and amortization	1,889,499	392,985	3,909	2,286,393	2,134,706	295,450	29,983	2,460,139
Equipment repairs and replacements	1,561,985	1,216,083	92,532	2,870,600	2,004,503	521,488	44,564	2,570,555
Client expenses	1,073,915	-	-	1,073,915	1,080,404	-	-	1,080,404
Professional fees	665,266	1,307,163	27,297	1,999,726	280,671	978,636	88,855	1,348,162
Rent	731,142	815,645	-	1,546,787	1,007,958	344,675	88,309	1,440,942
Food and other program supplies	1,965,967	184,652	26	2,150,645	2,396,692	63,923	386	2,461,001
Utilities	1,044,986	283,963	3,008	1,331,957	1,093,401	66,843	10,649	1,170,893
Transportation	363,781	25,857	2,956	392,594	250,818	25,901	1,022	277,741
Insurance	659,441	305,661	-	965,102	634,154	72,802	12,477	719,433
Other expenses	989,866	147,701	51,232	1,188,799	79,933	104,982	27,803	212,718
Office expense	15,316	141,782	339,966	497,064	13,174	154,225	278,588	445,987
Contracted services	602,928	583,199	58,768	1,244,895	225,561	378,264	41,966	645,791
Interest	470,839	357,280	-	828,119	493,292	315,270	-	808,562
Bad debts	1,152,530	4,148,325	38,852	5,339,707	521,462	-	15,000	536,462
Special events	909	115	272,885	273,909	1,109	-	100,582	101,691
Advertising	80,882	13,726	123,907	218,515	211,810	78,761	3,622	294,193
Subcontracted direct services	221,114	-	-	221,114	324,744	-	-	324,744
Total operating expenses	54,298,619	18,950,661	2,316,164	75,565,444	56,527,777	8,652,064	2,079,776	67,259,617
Non-operating expenses:								
Other non-operating expenses	-	-	-	-	-	171,441	-	171,441
Total non-operating expenses	-	-	-	-	-	171,441	-	171,441
Total expenses	\$ 54,298,619	\$ 18,950,661	\$ 2,316,164	\$ 75,565,444	\$ 56,527,777	\$ 8,823,505	\$ 2,079,776	\$ 67,431,058

See accompanying notes to the financial statements.

THE HOME FOR LITTLE WANDERERS

Statements of Cash Flows

Years Ended June 30,

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (21,887,090)	\$ 14,224,288
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	2,286,393	2,423,693
Amortization of debt issuance costs	-	36,446
Realized and unrealized (gains) losses from investments	7,058,791	(16,154,014)
Bad debt expense	5,339,707	536,462
Change in:		
Accounts receivable	(5,935,924)	(3,190,276)
Contributions and grants receivable	269,884	(650,624)
Investment income receivable	(1,135)	9,863
Prepaid expenses and other current assets	226,032	(855,926)
Accounts payable, accrued expenses, and other current liabilities	1,790,087	(25,591)
Client funds	16,315	(10,252)
Other liabilities	(56,540)	79,127
	<u>(10,893,480)</u>	<u>(3,576,804)</u>
Net cash used in operating activities	(10,893,480)	(3,576,804)
Cash flows from investing activities:		
Purchase of investments	(714,098)	(4,084,043)
Proceeds from sale of investments	10,600,000	9,527,135
Purchases of property and equipment	(862,630)	(800,332)
	<u>9,023,272</u>	<u>4,642,760</u>
Net cash provided by investing activities	9,023,272	4,642,760
Cash flows from financing activities:		
Net change in borrowings under line of credit	2,537,954	1,790,286
Debt issuance costs	-	(38,305)
Repayment of long-term debt	(1,141,721)	(1,910,700)
	<u>1,396,233</u>	<u>(158,719)</u>
Net cash provided by (used in) financing activities	1,396,233	(158,719)
Net change in cash and cash equivalents	(473,975)	907,237
Cash, cash equivalents and restricted cash, beginning	<u>1,873,700</u>	<u>966,463</u>
Cash, cash equivalents and restricted cash, ending	\$ <u>1,399,725</u>	\$ <u>1,873,700</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 798,088</u>	<u>\$ 813,925</u>

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Activities

The Home for Little Wanderers (the “Home”) is a Massachusetts based not-for-profit organization whose mission is to ensure the healthy behavioral, emotional, social, and educational development and physical well-being of children and families living in at-risk circumstances.

Impact of the Uncertainty Associated with the Entity’s Ability to Continue as a Going Concern

The Home has suffered recurring losses from operations in recent years and is in violation of certain debt covenants as of and for the year ended June 30, 2022. Although the Home’s lenders subsequently waived the violations of those debt covenants through June 30, 2023, cash flow losses have continued after year end. Management has also determined it is probable that further adjustments to its banking agreements will be required within one year of the date of this report. Management is currently using the time afforded by the lenders’ waivers to work on forward arrangements that will be satisfactory to the Home and its lenders. Management is also seeking to reduce its operating cash flow needs on a forward basis through various revenue enhancement and cost control efforts. Management may consider other options, such as leveraging or borrowing against its existing asset base. The Home cannot provide assurance regarding the outcome of these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

A summary of significant accounting policies follows:

Classification and Reporting of Net Assets

The financial statements of the Home have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America which requires that information regarding its financial position and activities are reported based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for general use and not subject to donor restrictions. The Board of Directors has designated amounts from net assets without donor restrictions to function as endowment. Net assets without donor restrictions also include the investment in property, plant and equipment, net of accumulated depreciation and related debt.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature, in which the donor stipulates that resources be maintained in perpetuity. Restrictions that are permanent in nature may also include investment earnings on certain investments as stipulated by donor restrictions, as well as gains and losses from beneficial interests in perpetual trusts. Unexpended gains on endowments are also included in this category until appropriated for expenditure by the Board.

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Home considers all highly liquid investments purchased with a maturity date of three months or less to be cash equivalents. Cash and cash equivalents held by investment managers are considered part of investments.

The Home maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Home has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable

The Home records accounts receivable at estimated net realizable value when there is an unconditional right to consideration. Accounts receivable consist primarily of amounts related to grants and contracts from state and local governments and amounts due from third-party payor sources. Grants and contracts receivable are carried at the original invoice amount less amounts covered by other sources.

Management estimates the allowance for doubtful accounts based on history of collections and knowledge acquired about specific terms. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. An account is considered uncollectible when all efforts to collect the account have been exhausted. Interest is not charged on accounts receivable.

Investments

Investments are carried at fair value. Fair value is determined as per the fair value measurements policy in this section.

Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses. Investment returns are allocated ratably to the funds that underlie the investments.

Fair Value Measurements

The Home reports required types of financial instruments in accordance with the fair value standards of accounting. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. In addition, the Home reports certain investments using the net asset value ("NAV") per share as determined by investment managers under the so called "practical expedient." The practical expedient allows NAV per share to represent fair value for reporting purposes when the criteria for using this method are met.

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

Instruments measured and reported at fair value other than those at NAV are classified and disclosed in one of the following categories:

Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities that the Home has the ability to access at measurement date.

Level 2 – Inputs are other than quoted prices included in Level 1 that are either directly or indirectly observable.

Level 3 – Inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level of input that is significant to the fair value measurement in its entirety.

It is possible that redemption rights may be restricted or eliminated by investment managers in the future in accordance with the underlying fund agreements. Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observable inputs and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements.

Beneficial Interests in Perpetual Trusts

Beneficial interest in perpetual trusts are carried at fair value. Fair value is determined as per the fair value measurements policy in this section which at times includes the use of actuarial methods. These amounts are held by third party trustees and are considered to be restricted in perpetuity given that the Home does not have control over distributions from these trusts. Distributions to the Home are reported as contribution revenue without restrictions. These amounts are classified as Level 3 given the structure of how such assets are held, notwithstanding that the underlying investments may be liquid or have readily determinable fair values.

Property, Plant and Equipment

Property, plant and equipment acquisitions are recorded at cost or, if donated, at fair value on the date of donation when such items have an expected future life of greater than one year and the amount is greater than a management established capitalization threshold. Fair value of any donated land, buildings and equipment is recorded using a Level 3 market approach as per the fair value policies in this section. Also included in property, plant and equipment are costs associated with construction in progress. The Home capitalizes costs incurred in connection with various ongoing projects until such projects are completed at which time those costs are then reclassified to the appropriate fixed asset account. Expenditures for major renewals and improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred.

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Property, Plant and Equipment (Continued)

Depreciation and amortization of property, plant and equipment are provided over the estimated useful lives of the respective assets on a straight-line basis as follows:

	Years
Buildings and improvements	10-40
Leasehold improvements	Lesser of 10 years or life of lease
Computer and software	3
Furniture and equipment	3-10
Motor vehicles	5

Included in buildings and improvements are tenant improvements associated with an existing lease, with a corresponding liability recorded for the related tenant improvement allowance included in other liabilities. The asset and related liability are depreciated over the life of the lease.

Endowment Assets

The Board has interpreted Massachusetts General Law as requiring investment earnings on net assets with donor restrictions that are permanent in nature to be retained in a restricted net asset classification until appropriated by the Board and expended. Massachusetts General Law allows the Board to appropriate for expenditure as much of the endowment fund as the Home determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established. The Home shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors: the duration and preservation of the endowment fund; the purposes of the Home and the endowment fund; general economic conditions; the possible effect of inflation or deflation; the expected total return from income and the appreciation of investments; other resources of the Home; and the investment policy of the Home.

The Home has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Home must hold in perpetuity or for a donor-specified period, as well as Board-designated funds. Endowment assets are invested in equities, mutual funds, fixed income funds, and alternative investments.

The Home's Board adopted a spending rate of 4.5% of the average fair value of the endowment investment portfolio over the preceding thirteen quarters, excluding the beneficial interest in perpetual trusts in 2022 and 2021. Spending approved for fiscal 2023 is \$3,420,000. Distributions from beneficial interests are in addition to these computed amounts. From time to time, the Board may approve additional spending for operations. See Note 10.

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Revenue Recognition and Operations

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Under accounting standards, revenue may be earned under exchange transactions or contribution transactions as follows:

Earned Support

Exchange transactions are measured via a principles-based process that requires the entities: 1) identify the contract with the customer; 2) identify the performance obligations in the contract; 3) determine the transaction prices; 4) allocate the transaction price to the performance obligations; and 5) recognize revenue when (or as) performance obligations are satisfied. Exchange transaction revenues are under arrangements that are one year or less in length.

The Home reports third party revenue earned in its Clinic and Day Care programs net of contractual adjustments to the Home's usual and customary rates, as well as an adjustment based on historical and industry collection standards in order to report net realizable revenue from these programs.

Investment returns are reported as increases or decreases in net assets with donor restrictions until appropriated to net assets without donor restrictions under the board approved spending policy.

Contributed Support

Program revenue and contributions are considered contributed support.

Program revenue consists of cost-reimbursement and unit rate grants, contracts and tuition from state and local agencies that are considered conditional contributions in that a barrier to entitlement must be met prior to the Home having a right to the related resources. The Home recognizes revenue when it has met the barrier to entitlement such as meeting a service delivery requirement, matching provision or incurring specified qualifying expenses in accordance with a framework of allowable costs or other barriers as stipulated in the grants and contracts such as performance requirements and/or the incurrence of allowable qualifying expenses. The Home bills funding sources primarily on a monthly basis following the month in which expenses have been incurred or services rendered to a client subject to the limits provided for in those grants and contracts. If amounts are received in advance of meeting a barrier to entitlement, such amounts are considered refundable advances.

The Home is subject to the regulations and rate formulas of the Massachusetts Executive Office for Administration and Finance Operational Services Division. Revenue is recorded by the individual programs either at the rate approved under negotiated contracts or at the rate of reimbursement as certified by the Massachusetts Operational Services Division. Excess of revenue over expenses from Commonwealth of Massachusetts supported programs, up to certain defined limits, can be utilized by the Home for expenditures in accordance with its exempt purposes provided such expenditures are reimbursable under the Operational Services Division regulations. Amounts in excess of these limits are subject to negotiated use or potential recoupment and are reported as a liability.

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Revenue Recognition and Operations (Continued)

Contributed Support (Continued)

Contributions, including unconditional promises to give, are recorded as revenues as either without or with donor restrictions in the period verifiably committed by the donor. Contributions of assets other than cash are recorded as per the fair value policies included elsewhere in this section. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows using a risk adjusted discount rate depending on the time period involved. Amortization of the discount is included in contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. Contributions with donor-imposed restrictions that can be met through the passage of time or upon the incurring of expenses consistent with the purposes are recorded as net assets with donor restrictions and reclassified to net assets without donor restrictions and reported as “net assets released from restrictions” when such time or purpose restrictions have been satisfied. Donor-restricted contributions whose restrictions are met in the same reporting period are presented as unrestricted support.

Contributions received under \$10,000 with donor-imposed restrictions are reported as revenues of the net assets without donor restrictions category, however, donor-imposed restrictions are fulfilled in all cases regardless of reporting treatment. Contributions received over \$10,000 with donor-imposed restrictions are reported as revenues of the net assets with donor restrictions category.

The Home recognizes special events and fundraising revenue equal to the fair value of direct benefits to donors and contribution income for the excess received when the event takes place.

The Home recognizes support in the form of donated services as per the fair value policies included elsewhere in this section using Level 3 methods on the date the services are provided if the services create or enhance nonfinancial assets or the services are provided by persons possessing certain skills that would typically need to be purchased if not provided by donation.

Use of Estimates

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

Operating and Non-operating Activity

The statements of activities report the change in net assets from operating and non-operating activities. Operating revenues consist of items attributable to the Home’s program services, certain contributions, certain amounts utilized under the Home’s spending policy and other sources. Non-operating activities include any investment return net of the spending policy, bequests, non-operating related contributions and certain other non-operating revenues and expenses.

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and activities and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Depreciation of plant assets and operation and maintenance of plant expenses have been allocated to functional classifications based on square footage of facilities. Interest expense is allocated based on the functional purpose for which debt proceeds were used. Other costs have been allocated based on time and effort percentages.

Income Tax

The Home is organized as a public charity under Section 501(c)(3) of the Internal Revenue Code and is generally exempt from Federal and state income taxes. Accordingly, no provision for income taxes is made in the financial statements.

Uncertain Tax Positions

The Home accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. Interest and penalties assessed, if any, are accrued as income tax expense. The Home has identified its tax status as a tax-exempt entity and its determination as to its income being related or unrelated as its only significant tax positions. However, the Home has determined that such tax positions do not result in an uncertainty requiring recognition. The Home is not currently under examination by any taxing jurisdiction. The Home’s Federal and state tax returns are generally open for examination for three years following the date filed.

Future Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases*, which requires a lessee to recognize a right-of-use asset and a lease liability for all leases, initially measured at the present value of the lease payments, in its statement of financial position. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The ASU is effective for fiscal year ending June 30, 2023 for the Home. The Home is evaluating the impact of the new guidance on the financial statements.

Management believes that other pending accounting standards would have limited impact on the Home and, accordingly, have not outlined those standards here.

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Subsequent Events

The Home evaluated subsequent events through May 15, 2023, the date on which the financial statements were available to be issued.

Subsequent to year-end, the Home sold five parcels of land for a net price of \$1.42 million, the entirety of which will be recorded as a gain in fiscal 2023.

Also subsequent to year-end, in August 2022, a contract for a program with the City of Boston was discontinued. The program in question generated \$8 million in revenue from July 2019 through June 2022.

Note 2 - Liquidity and Availability

The Home regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Home has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities and a line of credit.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Home considers all expenditures related to its ongoing program activities as well as the conduct of services undertaken to support those activities to be general expenditures.

Although not expected to be needed, the spendable yet restricted portion of the Home's net assets could be used to meet cash needs if necessary. Prudent investment management, however, must be considered to ensure the preservation of the funds for future use.

The following table shows the financial assets held by the Home that are available within one year of the statement of financial position date to meet general expenditures:

	2022	2021
Financial assets available to meet general expenditures over the next 12 months:		
Cash and cash equivalents	\$ 1,290,465	\$ 1,805,372
Accounts receivable, net	9,914,529	9,318,312
Contributions and grants receivable, net	617,641	535,283
Investment income receivable	22,452	21,317
Endowment spending rate distribution and appropriations	<u>3,420,000</u>	<u>3,600,000</u>
Total financial assets available to meet general expenditures over the next 12 months	<u>\$ 15,265,087</u>	<u>\$ 15,280,284</u>

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 3 - Contributions and Grants Receivable

Contributions and grants receivable are as follows at June 30:

	2022	2021
Less than one year	\$ 632,641	\$ 554,277
One to five years	-	352,242
	<u>632,641</u>	<u>906,519</u>
Less unamortized discount and allowance	<u>(15,000)</u>	<u>(18,994)</u>
	617,641	887,525
Less current portion	<u>(617,641)</u>	<u>(535,283)</u>
Contributions and grants receivable, net of current portion	\$ <u>-</u>	\$ <u>352,242</u>

The Home has conditional contributions where the related revenue is recognized when the qualified costs are incurred. The total conditional contributions that have been committed but that the barrier of entitlement of incurring qualified cost has not yet been met were approximately \$489,000 and \$1,816,000 at June 30, 2022 and 2021, respectively.

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 4 - Investments and Fair Value Measurements

Investments and fair value items are as follows at June 30:

	2022			
	Level 1	Level 3	Investments Measured at NAV	Total
Assets				
Marketable equity securities and equity mutual funds:				
International equities	\$ 11,142,972	\$ -	\$ -	\$ 11,142,972
Domestic equities	19,860,154	-	-	19,860,154
Mutual funds	108,985	-	-	108,985
Cash equivalents	258,003	-	-	258,003
U.S. government and debt obligations and fixed income mutual funds	15,829,360	-	-	15,829,360
Alternative investments:				
Global private equity fund	-	-	1,296,782	1,296,782
Structured credit fund	-	-	3,273,271	3,273,271
Core property fund	-	-	7,983,939	7,983,939
Private asset fund	-	-	5,074,138	5,074,138
	47,199,474	-	17,628,130	64,827,604
Total investments	47,199,474	-	17,628,130	64,827,604
Beneficial interest in perpetual trusts	-	13,389,354	-	13,389,354
Total items reported on a recurring basis at fair value	\$ 47,199,474	\$ 13,389,354	\$ 17,628,130	\$ 78,216,958

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 4 - Investments and Fair Value Measurements (Continued)

	2021			
	<i>Level 1</i>	<i>Level 3</i>	<i>Investments Measured at NAV</i>	<i>Total</i>
Assets				
Marketable equity securities and equity mutual funds:				
International equities	\$ 15,860,464	\$ -	\$ -	\$ 15,860,464
Domestic equities	28,901,911	-	-	28,901,911
Mutual funds	98,919	-	-	98,919
Cash equivalents	295,311	-	-	295,311
U.S. government and debt obligations and fixed income mutual funds	20,246,025	-	-	20,246,025
Alternative investments:				
Global private equity fund	-	-	677,968	677,968
Structured credit fund	-	-	3,122,721	3,122,721
Core property fund	-	-	6,075,184	6,075,184
Private asset fund	-	-	3,689,201	3,689,201
Total investments	65,402,630	-	13,565,074	78,967,704
Beneficial interest in perpetual trusts	-	16,193,947	-	16,193,947
Total items reported on a recurring basis at fair value	\$ 65,402,630	\$ 16,193,947	\$ 13,565,074	\$ 95,161,651

Unfunded commitments related to alternative investments were \$4,477,416 and \$7,195,096 for the years ended June 30, 2022 and 2021, respectively.

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 4 - Investments and Fair Value Measurements (Continued)

The changes in assets measured at fair value for which the Home has used Level 3 inputs to determine fair value, which is limited to beneficial interests in trusts, are as follows as of June 30:

	2022	2021
Beginning of year	\$ 16,193,947	\$ 13,456,073
Investment activity:		
Change in fair value	(2,279,780)	3,859,272
Distributions	<u>(524,813)</u>	<u>(1,121,398)</u>
End of year	<u>\$ 13,389,354</u>	<u>\$ 16,193,947</u>

Investments equal to the upcoming year's Board approved spending policy of \$3,420,000 and \$3,600,000 as of June 30, 2022 and 2021, respectively, are classified as current in the accompanying statements of financial position. These amounts are reflected as current assets because they represent the draw from investments to fund the Home's operations in the subsequent fiscal year. Since the remaining amount of investments is intended for long-term investment purposes, these investments are classified as long-term assets.

Investment return is comprised of the following for the years ended June 30:

	2022	2021
Interest and dividend income	\$ 3,434,883	\$ 3,518,757
Net realized and unrealized gains (losses)	(10,007,959)	16,154,014
Investment fees	<u>(426,632)</u>	<u>(438,293)</u>
Total investment return, net	(6,999,708)	19,234,478
Less amount availed per endowment spending policy	<u>(3,600,000)</u>	<u>(3,700,000)</u>
Investment return, net of amounts availed	<u>\$ (10,599,708)</u>	<u>\$ 15,534,478</u>

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 5 - Property, Plant and Equipment

Property, plant and equipment is as follows at June 30:

	2022	2021
Land and improvements	\$ 2,469,021	\$ 2,467,326
Buildings and improvements	47,753,726	46,827,576
Leasehold improvements	3,159,604	3,159,604
Furniture and equipment	8,848,727	8,234,409
Motor vehicles	218,095	218,095
Assets held for sale	246,000	246,000
Construction in progress	1,325,972	2,002,955
	<u>64,021,145</u>	<u>63,155,965</u>
Less accumulated depreciation and amortization	<u>(26,131,403)</u>	<u>(23,842,460)</u>
	<u>\$ 37,889,742</u>	<u>\$ 39,313,505</u>

Note 6 - Line of Credit

The Home has an unsecured line of credit with a financial institution with a maximum borrowing limit of \$10,000,000, with a maturity date of August 31, 2023. At or prior to maturity, management plans to renew the line on similar terms. The line is payable on demand with interest payable monthly equal to the LIBOR Advantage Rate plus 1.95% (3.40% and 2.05% at June 30, 2022 and 2021, respectively). The line of credit agreement requires the Home to maintain certain financial and administrative covenants. See Notes 1 and 7.

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 7 - Long-Term Debt

Long-term debt consists of the following at June 30:

	2022	2021
Massachusetts Development Finance Agency privately placed fixed rate bonds, collateralized by certain real property with interest at a fixed rate of 3.45% and a maturity date of March 1, 2037. The bonds are subject to certain financial and administrative covenants.	\$ 8,320,000	\$ 8,835,000
Term loan to reimburse construction related costs associated with a certain project up to \$6,400,000, collateralized by a percentage of the Home's investments as defined in the agreement, with interest payable at one-month LIBOR plus 1% (2.45% and 1.10% as of June 30, 2022 and 2021, respectively) and a maturity date of July 1, 2025. The loan is subject to certain financial and administrative covenants.	4,706,475	4,946,726
Note payable to repay a portion of existing notes assumed as part of the Wediko acquisition, collateralized by certain investments and real property with interest at a fixed rate of 3.28% and a maturity date of April 25, 2025. The note is subject to certain financial and administrative covenants.	2,394,311	2,657,632
New Hampshire HEFA mortgage note payable, collateralized by certain real property with interest at a fixed rate of 3.12% and a maturity date of September 1, 2037. The note is subject to certain financial and administrative covenants.	2,560,524	2,677,397
Auto loan payable, collateralized by certain real property. The loan does not bear interest and has a maturity date of July 1, 2025.	<u>19,353</u>	<u>25,629</u>
	18,000,663	19,142,384
Less: debt issuance costs, net of amortization	(174,273)	(174,273)
Less: current portion	<u>(1,155,371)</u>	<u>(1,143,333)</u>
Long-term debt, net of current portion	\$ <u>16,671,019</u>	\$ <u>17,824,778</u>

Unamortized bond issuance costs are being amortized using the straight-line method through the final maturity date of each respective bond issue.

The Home did not meet certain financial and non-financial covenants as of June 30, 2022 and 2021. Subsequently the Home's lenders waived such covenant noncompliance. Management is using the time afforded by such waivers to work with its lenders relative to forward arrangements; however, those arrangements have not yet been secured. In the event that the Home and its lenders do not reach satisfactory arrangements, Management believes that its unrestricted endowment funds, together with the available financial resources outside of those in the endowment, should be sufficient to pay off these obligations should the debt be called.

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 7 - Long-Term Debt (Continued)

Scheduled maturity dates of long-term debt over the next five years and in the aggregate are as follows for the years ending June 30:

2023	\$	1,155,371
2024		1,168,590
2025		1,191,623
2026		4,956,761
2027		990,384
Thereafter		<u>8,537,934</u>
	\$	<u><u>18,000,663</u></u>

Note 8 - Operating Lease Commitments

The Home leases equipment, vehicles and office space from unrelated third parties under operating lease agreements through September 2028. Certain of the leases provide for additional rent associated with increases in operating costs. Total rent and other lease expense under all lease agreements was \$1,723,300 and \$1,665,349 for the years ended June 30, 2022 and 2021, respectively.

Future minimum annual lease payments over the next five years and in the aggregate are as follows for the years ending June 30:

2023	\$	999,816
2024		850,596
2025		464,085
2026		126,488
2027		129,386
Thereafter		<u>168,664</u>
	\$	<u><u>2,739,035</u></u>

Note 9 - Retirement Plans

The Home has a qualified 403(b) tax deferred retirement plan which covers substantially all of its employees. The Home matches employee contributions on a dollar for dollar basis up to 3% of wages subject to legal limits. Expenses under this plan were approximately \$783,000 and \$324,000 for the years ended June 30, 2022 and 2021, respectively. Effective January 1, 2021 through June 30, 2021, the Home suspended employer contributions to the plan.

The Home also has a non-qualified deferred compensation plan under Sections 457(b) and 457(f) of the Internal Revenue Code for a key employee. Contributions to these plans totaled \$24,694 and \$26,181 for the years ended June 30, 2022 and 2021, respectively. The fair value of the investments and liabilities under these plans was \$110,097 and \$98,920 at June 30, 2022 and 2021, respectively, and is included within investments and other liabilities on the statements of financial position.

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 10 - Net Assets and Endowment Matters

Net Assets Without Donor Restrictions

Net assets without donor restrictions are composed of the following at June 30:

	2022	2021
Net investment in property and equipment	\$ 20,063,352	\$ 20,345,394
Board-designated funds	<u>24,252,821</u>	<u>37,605,128</u>
Total net assets without donor restrictions	<u>\$ 44,316,173</u>	<u>\$ 57,950,522</u>

Board-designated funds are stated net of the expected supplemental draw approved for the upcoming year and current and past operating deficits.

Net Assets With Donor Restrictions

Net assets with donor restrictions are composed of the following at June 30:

	2022	2021
Gifts restricted to program operations	\$ 636,377	\$ 1,024,069
Endowment funds:		
Accumulated unspent returns on endowment funds	23,581,665	28,875,558
Endowments requiring one-half of investment income to be added to original gift and balance to general support	3,572,281	3,338,845
Other special endowments, income restricted for various program purposes of the Home	2,369,577	2,369,576
General support endowments	<u>5,530,319</u>	<u>5,530,319</u>
Total endowment funds	35,053,842	40,114,298
Beneficial interest in perpetual trusts	<u>13,389,354</u>	<u>16,193,947</u>
	<u>\$ 49,079,573</u>	<u>\$ 57,332,314</u>

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

Net Assets With Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses which satisfied the restricted purposes or by the occurrence of events specified by the donors to support program operations in the amount of \$461,371 and \$228,277 for the years ended June 30, 2022 and 2021, respectively.

The spending policy attributable to the endowment was \$3,263,268 and \$2,955,814 for the years ended June 30, 2022 and 2021, respectively.

The following is a summary of endowment net asset composition by type of fund as of June 30, 2022:

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Donor-restricted endowment funds	\$ -	\$ 35,053,842	\$ 35,053,842
Board-designated endowment funds	<u>24,252,821</u>	<u>-</u>	<u>24,252,821</u>
	<u>\$ 24,252,821</u>	<u>\$ 35,053,842</u>	<u>\$ 59,306,663</u>

The following is a summary of the changes in endowment net assets for the year ended June 30, 2022:

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Endowment net assets as of June 30, 2021	\$ <u>37,605,128</u>	\$ <u>40,114,298</u>	\$ <u>77,719,426</u>
Investment return:			
Net losses on investment transactions	(5,232,453)	(4,327,668)	(9,560,121)
Investment revenue	<u>3,300,747</u>	<u>2,530,480</u>	<u>5,831,227</u>
	<u>(1,931,706)</u>	<u>(1,797,188)</u>	<u>(3,728,894)</u>
Other changes:			
Spending policy	(336,732)	(3,263,268)	(3,600,000)
Appropriations and other expenses	(7,423,498)	-	(7,423,498)
Use of Board designated endowment funds to fund operating deficits	(4,330,346)	-	(4,330,346)
Contributions	<u>669,975</u>	<u>-</u>	<u>669,975</u>
	<u>(11,420,601)</u>	<u>(3,263,268)</u>	<u>(14,683,869)</u>
Endowment net assets as of June 30, 2022	<u>\$ 24,252,821</u>	<u>\$ 35,053,842</u>	<u>\$ 59,306,663</u>

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

Net Assets With Donor Restrictions (Continued)

Included in appropriations and other expenses as of June 30, 2022 and 2021 is \$7,000,000 and \$5,000,000, respectively. These amounts were approved by the Board as additional spending appropriations for operations.

The following is a summary of endowment net asset composition by type of fund as of June 30, 2021:

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Donor-restricted endowment funds	\$ -	\$ 40,114,298	\$ 40,114,298
Board-designated endowment funds	<u>37,605,128</u>	<u>-</u>	<u>37,605,128</u>
	<u>\$ 37,605,128</u>	<u>\$ 40,114,298</u>	<u>\$ 77,719,426</u>

The following is a summary of the changes in endowment net assets for the year ended June 30, 2021:

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Endowment net assets as of June 30, 2020	\$ <u>35,234,760</u>	\$ <u>35,525,706</u>	\$ <u>70,760,466</u>
Investment return:			
Net gains on investment transactions	7,568,401	7,222,991	14,791,392
Investment revenue	<u>1,257,326</u>	<u>821,415</u>	<u>2,078,741</u>
	<u>8,825,727</u>	<u>8,044,406</u>	<u>16,870,133</u>
Other changes:			
Spending policy	(744,186)	(2,955,814)	(3,700,000)
Appropriations and other expenses	(5,417,468)	-	(5,417,468)
Contributions	104,113	-	104,113
Use of Board designated endowment funds to fund operating deficits	(897,818)	-	(897,818)
Endowment re-designation	<u>500,000</u>	<u>(500,000)</u>	<u>-</u>
	<u>(6,455,359)</u>	<u>(3,455,814)</u>	<u>(9,911,173)</u>
Endowment net assets as of June 30, 2021	<u>\$ 37,605,128</u>	<u>\$ 40,114,298</u>	<u>\$ 77,719,426</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor requires the Home to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets with donor restrictions. The aggregate deficiency between the fair value of the investments of the endowment fund as of June 30, 2022 and 2021 and the level required by donor stipulation was minimal.

THE HOME FOR LITTLE WANDERERS

Notes to Financial Statements

Note 11 - Commitments and Contingencies

There are various legal proceedings pending that involve claims against the Home. These proceedings are, in the opinion of management, routine matters incidental to the normal business conducted by the Home. In the opinion of management, the ultimate disposition of such proceedings is not expected to have a material adverse effect, if any, on the Home's financial position, statements of activities, or cash flows.

Note 12 - Support Associated with COVID-19

Federal and State Grants

The Home applied for funding associated with the Provider Relief Program during fiscal year 2021, resulting in funding received in the amount of approximately \$843,000 throughout the year. The award stipulated that the funds could be used for COVID-19 related costs including personnel, personnel retention costs and other costs incurred prior to June 30, 2022. Such award has been recognized as revenue as costs were incurred during fiscal 2021.

During 2021, the Home was a beneficiary of approximately \$2,770,000 in Coronavirus Relief Fund assistance received through various departments of the Commonwealth of Massachusetts and the State of New Hampshire, all of which was used in 2021 to cover additional costs incurred as a result of COVID-19 for the operations of its residential education programs.

Supplemental Information

THE HOME FOR LITTLE WANDERERS

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Assistance Listing Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Federal Expenditures</i>
U.S. Department of Education Pass-Through Program From: New York State Education Department Twenty-First Century Community Learning Centers	84.287	04-6002778	<u>\$ 1,057,057</u>
Total U.S. Department of Education Pass-Through Program			<u>1,057,057</u>
U.S. Department of Agriculture Pass-Through Program From: The Commonwealth of Massachusetts Department of Education Child Nutrition Cluster National School Lunch Program	10.555	SCDOE22758D70532112A	<u>113,496</u>
Total U.S. Department of Agriculture Pass-Through Program			<u>113,496</u>
U.S. Department of Health and Human Services Direct Program COVID-19 - Provider Relief Funds	93.498	N/A	<u>843,904</u>
U.S. Department of Health and Human Services Pass-Through Program From: The Commonwealth of Massachusetts Department of Public Health Opioid State Targeted Response	93.788	INTF2306M03193328028 INTF2306M03193328029	<u>148,826</u> <u>133,926</u>
Total U.S. Department of Health and Human Services Pass-Through Program			<u>282,752</u>
Total U.S. Department of Health and Human Services Direct and Pass-Through Programs			<u>1,126,656</u>
U.S. Department of Housing and Urban Development Pass-Through Programs: The Commonwealth of Massachusetts Department of Housing and Community Development Emergency Solutions Grants Program	14.231	OCD8000ESGCV2021F000	1,100,635
The City of Boston, Department of Neighborhood Development Continuum of Care Program	14.267	YHDP	<u>92,283</u>
Total U.S. Department of Housing and Urban Development Pass-Through Programs			<u>1,192,918</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,490,127</u></u>

THE HOME FOR LITTLE WANDERERS

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of The Home for Little Wanderers (the "Home") under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Home, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Home.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized in accordance with the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Home has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 - COVID-19 Provider Relief Funds

Included in COVID-19 Provider Relief Funds are expenditures incurred during the years ended June 30, 2021 and 2020, per the instruction of the funding agency.

Reporting Under Government Auditing Standards



*Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards*

The Board of Directors
The Home for Little Wanderers
Boston, Massachusetts

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 financial statements of The Home for Little Wanderers (the "Home"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 15, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Home's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Home's internal control. Accordingly, we do not express an opinion on the effectiveness of the Home'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-01 that we consider to be a material weakness.



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Home's 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2022-01.

The Home's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Home's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Home's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maye Heyman McCann P.C.

Boston, Massachusetts
May 15, 2023

Reporting Under the Uniform Guidance



*Independent Auditors' Report on Compliance For Each Major Federal Program
and Report on Internal Control Over Compliance Required by the Uniform Guidance*

The Board of Directors
The Home for Little Wanderers
Boston, Massachusetts

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited The Home for Little Wanderers' (the "Home") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Home's major federal programs for the year ended June 30, 2022. The Home's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Home complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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 of America; 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 Home and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Home's compliance with the 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 Home's federal programs.



Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether to do with fraud or error, and express an opinion on the Home'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 a material noncompliance when it exists. The risk of not detecting a 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 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 Home's compliance with the requirements of each major 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 Home's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Home'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 Home'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 2022-02. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Home's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Home's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no such opinion on the response.



Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described the Auditors' Responsibilities for the Audit of Compliance section above 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 certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-02 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 Home's response to the internal control over compliance findings identified in our Compliance audit described in the accompanying schedule of findings and questioned costs. The Home's response was not subjected to the other 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.

Maye Hoxman McCann P.C.

Boston, Massachusetts
May 15, 2023

THE HOME FOR LITTLE WANDERERS

Schedule of Findings and Questioned Costs

Year Ended June 30, 2022

Section 1

Summary of Auditors' Results

Financial Statements

- 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

- 2. Internal control over financial reporting:
 - a. Material weaknesses identified? Yes
 - b. Significant deficiencies identified? No

- 3. Noncompliance material to the financial statements noted? No

Federal Awards

- 1. Internal control over major federal programs:
 - a. Material weaknesses identified? No
 - b. Significant deficiencies identified? Yes

- 2. Type of auditors' report issued on compliance for major federal programs: Unmodified

- 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes

- 4. Identification of major federal programs:

Assistance Listing Number

Name of Federal Program or Cluster

93.498
14.231

COVID-19 – Provider Relief Funds
Emergency Solutions Grant Program

- 5. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

- 6. Auditee qualified as a low-risk auditee? No; auditee has not had a federal audit for both of the last 2 years

THE HOME FOR LITTLE WANDERERS

Schedule of Findings and Questioned Costs

Year Ended June 30, 2022

Section 2

Financial Statement Findings

2022-01

Criteria or Specific Requirement

An organization must have sufficient resources, processes, and systems to close the books on a timely basis. This includes analyzing and reconciling accounts, adjusting the books and records, preparation of financial statements and disclosures and timely filing of various regulatory reports, among other matters.

Conditions Found

- Billing practices were deficient, including timeliness of billings, the misapplication of cash receipts and the controls relating to billed and unbilled accounts.
- Numerous accounts were not reconciled and analyzed in a timely manner at year-end.
- Quantity of year-end adjustments resulting in material effects on financial results.
- The turnover in personnel and open positions disrupted normal cadence of policies, practices and procedures.
- Proper alignment of resources to required accounting functions.
- Inability to finalize books and records to facilitate various regulatory reporting requirements.

Cause

Given the turnover in personnel, vacant positions and competing priorities for the finance staff's time, the Home did not have sufficient resources, processes and systems to perform the steps required in the criteria above.

Effect

Management was unable to prepare timely, accurate and complete financial statements and analysis for the year ended June 30, 2022.

Recommendation

Management should assess its current resources and practices, with the goal of having more timely and accurate financial information, reconciliations and reporting protocols.

Views of Responsible Officials and Planned Corrective Action

See Corrective Action Plan.

THE HOME FOR LITTLE WANDERERS
Schedule of Findings and Questioned Costs

Year Ended June 30, 2022

Section 3

Federal Award Findings and Questioned Costs

2022-02

Finding – Allowable Costs/Cost Principles and Reporting – Emergency Solutions Grants Program, AL#14.231; June 30, 2022 Award Year; U.S. Department of Housing and Urban Development (HUD)

Criteria or Specific Requirement

Expenditures of Federal funds must be supported by appropriate documentation, along with internal controls over recording and review of costs and related invoicing.

Condition Found

Out of 40 invoices selected for testing relative to non-payroll costs, support for 1 invoice could not be located. Out of 19 payroll items tested, 12 selections had variances between the supporting documentation and the actual costs charged to the grant.

An invoice submitted for reimbursement was found to contain supporting data from an invoice that had previously been submitted. On further review, appropriate support for these costs was located.

Questioned Costs

\$8,279.87 – known questioned costs. \$34,313.82 – likely questioned costs.

Cause

Controls over input and review of payroll costs, as well as controls over retention and review of supporting documentation, were not sufficient.

Effect

Correctness and accuracy of charges to grants could be affected.

Recommendation

Management should enhance its systems and practices with respect to document retention, billing and recording of payroll costs.

View of responsible officials

See Corrective Action Plan.



Corrective Action Plan

Financial Statement Findings

2022-01

Criteria or Specific Requirement

An organization must have sufficient resources, processes, and systems to close the books on a timely basis. This includes analyzing and reconciling accounts, adjusting the books and records, preparation of financial statements and disclosures and timely filing of various regulatory reports, among other matters.

Conditions Found

- Billing practices were deficient, including timeliness of billings, the misapplication of cash receipts and the controls relating to billed and unbilled accounts.
- Numerous accounts were not reconciled and analyzed in a timely manner at year-end.
- Quantity of year-end adjustments resulting in material effects on financial results.
- The turnover in personnel and open positions disrupted normal cadence of policies, practices and procedures.
- Proper alignment of resources to required accounting functions.
- Inability to finalize books and records to facilitate various regulatory reporting requirements.

Views of Responsible Officials and Planned Corrective Action

Management has engaged a 3rd party to review, recommend and implement improvements to the current billing and contract management processes. This will include improved documented processes and procedures along with the needed training to be effectively implemented and continued. These improvements will result in a more timely close process and required filing submissions.

Federal Award Findings and Questioned Costs

2022-02

Criteria or Specific Requirement

Expenditures of Federal funds must be supported by appropriate documentation, along with internal controls over recording and review of costs and related invoicing.

Federal Award Findings and Questioned Costs (Continued)

2022-02 (Continued)

Condition Found

Out of 40 invoices selected for testing relative to non-payroll costs, support for 1 invoice could not be located. Out of 19 payroll items tested, 12 selections had variances between the supporting documentation and the actual costs charged to the grant.

An invoice submitted for reimbursement was found to contain supporting data from an invoice that had previously been submitted. On further review, appropriate support for these costs was located.

Views of Responsible Officials and Planned Corrective Action

Management has engaged a 3rd party to review, recommend and implement improvements to the current billing and month end closing processes. This will include improved documented processes and procedures along with the needed training to be effectively implemented and continued.

Responsible Official: _____



Michael Nowlan, Interim EVP | CFO

Summary Schedule of Prior Audit Finding

There were no prior year findings.