

Raffol and Company, Inc.
Certified Public Accountants

Kenneth J. Raffol, CPA, MST • Jonathan R. Vitale, CPA, MSA

MORE THAN WORDS, INC.



Financial Statements
For the Years Ended June 30, 2022 and 2021

MORE THAN WORDS, INC.

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Independent Auditors' Report

To the Board of Directors
More Than Words, Inc.
Waltham, Massachusetts

Opinion

We have audited the accompanying financial statements of More Than Words, Inc. (a nonprofit organization), which comprise the statement 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 financial statements present fairly, in all material respects, the financial position of More Than Words, Inc. 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are required to be independent of More Than Words, Inc. 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 More Than Words, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards 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 More Than Words, Inc.'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 More Than Words, Inc.'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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Program Activities Presentation on page 23 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 audit 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 auditing standards generally accepted in the United States of America. 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 November 1, 2022 on our consideration of More Than Words, Inc.'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 the audit performed in accordance with Government Auditing Standards in considering More Than Words, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Raffel and Company".

Needham, Massachusetts
November 1, 2022

MORE THAN WORDS, INC.

***Statements of Financial Position
As of June 30, 2022 and 2021***

	2022	2021
<i>Assets</i>		
Cash and cash equivalents	\$ 5,437,545	\$ 4,350,258
Accounts receivable, net of allowance	657,664	393,278
Grants receivable	660,880	999,880
Inventory	157,704	37,301
Prepaid expenses	117,060	96,245
Property and equipment, net	2,928,829	3,121,863
Deferred finance costs, net	1,831	5,492
Security deposits	25,436	25,436
Right-to-use assets	5,495,739	6,062,026
	\$ 15,482,688	\$ 15,091,779
<i>Liabilities and Net Assets</i>		
Accounts payable	\$ 247,189	\$ 144,792
Accrued expenses	433,046	322,705
Grants payable	696	696
Deferred income	28,727	35,825
Lease liability	6,017,319	6,572,723
	6,726,977	7,076,741
<i>Net Assets:</i>		
Without donor restrictions	7,323,678	7,166,517
With donor restrictions	1,432,033	848,521
	8,755,711	8,015,038
	\$ 15,482,688	\$ 15,091,779

See accompanying notes to financial statements.

MORE THAN WORDS, INC.

***Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2022 and 2021***

	<i>2022</i>			<i>2021</i>		
	<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>
Revenue and Support:						
Contributed support - operations	\$ 2,374,085	\$ 1,761,825	\$ 4,135,910	\$ 1,697,133	\$ 1,425,380	\$ 3,122,513
Governmental grants and contracts	2,385,762	90,304	2,476,066	1,325,816	-	1,325,816
Governmental PPP grant	-	-	-	844,598	-	844,598
Event donations:						
Revenues	337,890	-	337,890	26,000	-	26,000
Less: expenses	62,654	-	62,654	-	-	-
<i>Net special event revenue</i>	<i>275,236</i>	<i>-</i>	<i>275,236</i>	<i>26,000</i>	<i>-</i>	<i>26,000</i>
Earned revenue	3,057,911	-	3,057,911	3,455,318	-	3,455,318
Contributed goods	237,890	-	237,890	-	-	-
Contributed services	67,025	-	67,025	174,491	-	174,491
Investment income	5,987	-	5,987	11,305	-	11,305
Other income	20,830	-	20,830	27,076	-	27,076
Net assets released from restrictions						
Operating	1,218,617	(1,218,617)	-	1,814,207	(1,814,207)	-
Growth Campaign	50,000	(50,000)	-	100,000	(100,000)	-
<i>Total revenue and support</i>	<i>9,693,343</i>	<i>583,512</i>	<i>10,276,855</i>	<i>9,475,944</i>	<i>(488,827)</i>	<i>8,987,117</i>
Expenses:						
Program expenses	8,321,129	-	8,321,129	7,485,733	-	7,485,733
General and administrative	814,609	-	814,609	870,559	-	870,559
Fundraising	494,276	-	494,276	435,418	-	435,418
<i>Total expenses</i>	<i>9,630,014</i>	<i>-</i>	<i>9,630,014</i>	<i>8,791,710</i>	<i>-</i>	<i>8,791,710</i>
<i>Increase (decrease) in net assets before change in accounting estimate</i>	<i>63,329</i>	<i>583,512</i>	<i>646,841</i>	<i>684,234</i>	<i>(488,827)</i>	<i>195,407</i>
Change in accounting estimate	93,832	-	93,832	-	-	-
<i>Increase (decrease) in net assets</i>	<i>157,161</i>	<i>583,512</i>	<i>740,673</i>	<i>684,234</i>	<i>(488,827)</i>	<i>195,407</i>
Net Assets, beginning of year	7,166,517	848,521	8,015,038	6,482,283	1,337,348	7,819,631
Net Assets, end of year	<i>\$ 7,323,678</i>	<i>\$ 1,432,033</i>	<i>\$ 8,755,711</i>	<i>\$ 7,166,517</i>	<i>\$ 848,521</i>	<i>\$ 8,015,038</i>

See accompanying notes to financial statements.

MORE THAN WORDS, INC.

*Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021*

	<i>2022</i>	<i>2021</i>
<i>Cash Flows from Operating Activities:</i>		
Increase in net assets	\$ 646,841	\$ 195,407
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	348,899	326,751
Amortization of right-to-use asset	692,695	692,695
Non-cash stock donations	(73,546)	(59,712)
Non-cash contributed goods, received	(232,890)	-
Non-cash contributed goods, cost of goods sold	232,310	-
Realized loss (gain) on investments	(2,557)	32,556
Unrealized (gain) loss on investments	-	(39,896)
Governmental PPP grant	-	(844,598)
Bad Debts	28,384	22,750
Interest expense	-	8,639
Changes in:		
Accounts receivable	(292,771)	117,094
Grants receivable	339,000	86,040
Inventory	(25,991)	(16,530)
Prepaid expenses	(20,815)	2,920
Accounts payable	102,397	70,678
Accrued expenses	110,341	-
Grants payable and deferred revenue	(7,098)	(16,486)
<i>Net cash provided by operating activities</i>	1,845,199	578,308
<i>Cash Flows from Investing Activities:</i>		
Proceeds from the sale of investments	76,104	82,456
Purchase of property and equipment	(152,204)	(106,876)
<i>Net cash (used in) provided by investing activities</i>	(76,100)	(24,420)
<i>Cash Flows from Financing Activities:</i>		
Payments on lease liability	(681,812)	(668,390)
<i>Net cash (used in) provided by financing activities</i>	(681,812)	(668,390)
<i>Net (decrease) increase in cash and cash equivalents</i>	1,087,287	(114,502)
<i>Cash and cash equivalents, beginning of year</i>	4,350,258	4,464,760
<i>Cash and cash equivalents, end of year</i>	\$ 5,437,545	\$ 4,350,258

See accompanying notes to financial statements.

MORE THAN WORDS, INC.

Statements of Functional Expenses For the Years Ended June 30, 2022 and 2021

	2022				2021			
	Program	General and Administrative	Fundraising	Total	Program	General and Administrative	Fundraising	Total
Sales Expenses:								
Shipping and other costs	\$ 1,254,405	\$ -	\$ -	\$ 1,254,405	\$ 1,349,831	\$ -	\$ -	\$ 1,349,831
Commissions and fees	743,895	-	-	743,895	963,180	-	-	963,180
Cost of goods sold (items donated in-kind)	232,310	-	-	232,310	-	-	-	-
Total sales expenses	2,230,610	-	-	2,230,610	2,313,011	-	-	2,313,011
Personnel Costs:								
Adult staff wages and compensation	2,860,929	259,266	246,026	3,366,221	2,458,731	254,575	210,163	2,923,469
Payroll taxes	244,909	18,393	21,530	284,832	228,683	18,335	20,850	267,868
Employee benefits	263,204	24,322	28,947	316,473	196,233	58,900	24,829	279,962
Payroll processing fee	7,372	624	791	8,787	5,545	588	498	6,631
Total personnel costs	3,376,414	302,605	297,294	3,976,313	2,889,192	332,398	256,340	3,477,930
Youth Stipends:								
Youth staff wages and compensation	751,816	-	-	751,816	692,323	-	-	692,323
Payroll taxes	76,224	-	-	76,224	66,440	-	-	66,440
Payroll processing fees	12,689	-	-	12,689	15,825	-	-	15,825
Total youth stipends	840,729	-	-	840,729	774,588	-	-	774,588
Other Operating Expenses:								
Marketing and communication expenses	21	-	59,456	59,477	456	10	65,626	66,092
Technology	59,161	5,361	5,088	69,610	24,411	2,602	2,087	29,100
Insurance	65,239	5,912	5,610	76,761	63,228	6,547	5,405	75,180
Supplies	198,470	9,011	791	208,272	138,344	2,124	297	140,765
Evaluation	7,715	-	-	7,715	16,646	-	-	16,646
Legal and accounting	-	190,417	-	190,417	-	147,505	-	147,505
Other professional fees	120,415	85,829	10,195	216,439	136,966	29,834	-	166,800
Donated in-kind professional services	22,500	44,525	-	67,025	-	174,491	-	174,491
Vehicle	60,173	-	-	60,173	61,710	185	-	61,895
Passthrough subcontractor payments	154,000	-	-	154,000	4,000	1,000	-	5,000
Dues and subscriptions	21,894	31,923	19,836	73,653	15,588	24,894	17,479	57,961
Job postings	12,543	-	-	12,543	4,339	20	-	4,359
Professional development	27,154	1,285	-	28,439	3,253	4,724	-	7,977
Travel and meetings	6,462	164	117	6,743	7,363	75	-	7,438
Interest expense	-	-	-	-	-	8,639	-	8,639
Bad debts	-	28,384	-	28,384	-	22,750	-	22,750
Other expenses	2,566	4,482	-	7,048	1,406	2,326	39	3,771
Total other operating expenses	758,313	407,293	101,093	1,266,699	477,710	427,726	90,933	996,369

See accompanying notes to financial statements.

MORE THAN WORDS, INC.

***Statements of Functional Expenses (Continued)
For the Years Ended June 30, 2022 and 2021***

	2022				2021			
	<i>General and</i>				<i>General and</i>			
	<i>Program</i>	<i>Administrative</i>	<i>Fundraising</i>	<i>Total</i>	<i>Program</i>	<i>Administrative</i>	<i>Fundraising</i>	<i>Total</i>
Occupancy Expenses:								
Building rent	588,717	53,351	50,627	692,695	582,578	60,320	49,797	692,695
Equipment rental	13,001	1,178	1,118	15,297	6,950	720	594	8,264
Facility repair and maintenance	139,608	12,652	12,005	164,265	108,914	11,277	9,309	129,500
Utilities	80,321	7,279	6,907	94,507	61,061	6,322	5,219	72,602
<i>Total occupancy expenses</i>	821,647	74,460	70,657	966,764	759,503	78,639	64,919	903,061
<i>Total expenses before depreciation</i>	8,027,713	784,358	469,044	9,281,115	7,214,004	838,763	412,192	8,464,959
Depreciation and Amortization Expense	293,416	30,251	25,232	348,899	271,729	31,796	23,226	326,751
<i>Total expenses</i>	\$ 8,321,129	\$ 814,609	\$ 494,276	\$ 9,630,014	\$ 7,485,733	\$ 870,559	\$ 435,418	\$ 8,791,710

See accompanying notes to financial statements.

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2022 and 2021

Note 1. Nature of Organization and Operations

More Than Words, Inc. (MTW or the Organization) is a nonprofit social enterprise that empowers young adults who are in the foster care system, court-involved, homeless, or out of school to take charge of their lives by taking charge of a business.

Program Services

MTW serves youth ages 16 to 24 who are caught in public systems, disconnected from school and/or work, and in need of an empowering life experience. The majority of young people identify as individuals of color, and many as members of the LGBTQ community.

Across sites in Boston and Waltham:

- 50% are involved with the child welfare system
- 25% are court-involved with the juvenile or adult justice systems
- 30% experience homelessness
- 18% are out of school

MTW youth work approximately 20 hours each week, running every aspect of an over \$3 million dollar business. They lead shifts, develop marketing strategies, set personal goals, and evaluate their own and their peers' performance daily, using that data in performance reviews and to direct their progress through the program. Through this job, they gain important work experience and self-efficacy. Youth hold an equally important You Job – coaching and case management focused on achieving key personal milestones from obtaining an ID to finding stable housing. We also show up for young adults outside of our walls: standing with youth at court dates, helping with housing, and advocating for transition services from the Department of Children and Families. MTW graduates receive two years of proactive support in pursuing jobs and education in a Career Services Program. We check in monthly, help with job searching, and provide emergency funds.

The Organization simultaneously engages in innovations and individual and systems-level advocacy to address the systemic injustices that most frequently derail young people. MTW also operates a growing pilot program with partner Caritas Communities to provide housing for homeless youth in Single-Room Occupancy units while receiving job training and transitioning to other jobs and education.

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2022 and 2021

Note 2. Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), established by the Financial Accounting Standards Board (FASB). These standards require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets available that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Leased Property from Operating Leases and Amortization

The Organization elected to implement new lease reporting for operating leases as outlined in FASB Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. A lease conveys the right to use an underlying asset for a period of time in exchange for consideration. On the lease commencement date, a lessee is required to measure and record a lease liability and right-to-use asset equal to the present value of the remaining lease payments. The present value of the lease payments was calculated using the interest rate of 2% based on the interest rate for the line of credit the Organization had in place at the time of the signing of the lease. The right-to-use property and equipment leased from a lessor under an operating lease is reported on the statement of financial position as a right-to-use asset and is recorded at the present value of the lease at the lease commencement date and amortized over the lease term. The lease liability is initially reported on the statement of financial position at the present value of the operating lease reduced by the annual lease payments. As a result of this lease accounting treatment, for the years ended June 30, there are differences between the amount of rent expensed on the statements of activities and changes in net assets and the amount of cash paid pursuant to the lease agreements, as follows:

	<u>2022</u>	<u>2021</u>
Lease expense - statement of activities and changes in net assets	\$ 692,695	\$ 692,695
Lease payments paid in cash	<u>(681,812)</u>	<u>(668,390)</u>
<i>Lease expense in excess of cash paid</i>	<u>\$ 10,883</u>	<u>\$ 24,305</u>

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2022 and 2021

Note 2. Summary of Significant Accounting Policies (Continued)

Use of Estimates and Assumptions

The presentation of financial statements in conformity with U.S. GAAP requires the Organization's management to make estimates and assumptions. These affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Revenue and Other Support

During 2021, the Organization adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). This standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. ASU 2014-09 replaces most existing revenue recognition guidance in US GAAP. The standard also require expanded disclosures related to the nature, amount, and timing of revenue and cash flows from contracts with customers. The Organization adopted the new standard effective June 30, 2021, using the modified retrospective method. Based on the Organization's review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under this new standard. The adoption of this standard has no impact on the consolidated financial statements.

The Organization evaluates whether a transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (2) a contribution. If the transfer of assets is determined to be an exchange transaction, the Organization applied guidance for exchange transactions. If the transfer of assets is determined to be a contribution, the Organization evaluates whether the contribution is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before the Organization is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

The Organization recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or notification of a beneficial interest is received. Conditional promises to give (that is, those with a measurable performance or other barrier and a right of return) are not recognized until the conditions on which they depend have been met.

Contributions received are recorded as revenue with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is satisfied), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

The Organization presents its gross sales as earned revenue for its internet and in-store sales training program, and event training program.

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2022 and 2021

Note 2. Summary of Significant Accounting Policies (Continued)

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(a)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The Organization is also exempt from Massachusetts state taxes.

Cash and Cash Equivalents

The Organization considers as cash equivalents all highly liquid investments that can be converted into known amounts of cash and have a maturity period of 90 days or less at the time of purchase.

Deferred Finance Costs

The Organization has capitalized costs totaling \$18,306 associated with obtaining a line-of-credit note. The line of credit has a five-year life and expires on January 30, 2023. The Organization has recorded amortization expense in the amount of \$3,661 during each of the years ended June 30, 2022 and 2021.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, which range from three to 20 years. At year-end, the cost of assets and related accumulated depreciation was as follows:

	<u>2022</u>	<u>2021</u>
Equipment and furniture	\$ 621,635	\$ 595,639
Computer software	23,583	23,583
Computers and equipment	92,718	92,718
Leasehold improvements	3,517,599	3,426,190
Signage	46,239	40,439
Vehicles	234,165	219,033
Website	44,341	38,341
Curriculum	16,700	16,700
	<u>4,596,980</u>	<u>4,452,643</u>
Less: accumulated depreciation	<u>1,668,151</u>	<u>1,330,780</u>
<i>Net book value of property and equipment</i>	<u><u>\$ 2,928,829</u></u>	<u><u>\$ 3,121,863</u></u>

Depreciation expense was \$345,238 and \$323,089 for the years ended June 30, 2022 and 2021, respectively.

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2022 and 2021

Note 2. Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The following functional expenses are allocated based on time and effort:

- Personnel
- Youth Stipends
- Occupancy
- Technology
- Insurance
- Depreciation

All other expenses are directly allocated to the programs and departments as they are utilized.

Investments

The Organization reports investments in equity securities with readily determinable fair values in the statements of financial position at fair value. Investment income is included in the change in net assets as a change in net assets without donor restrictions. It is the Organization's policy to convert all stock donations into cash upon receipt. During the years ended June 30, 2022 and 2021, the Organization converted all investments to cash.

Accounts and Grants Receivable and Allowance for Doubtful Accounts

Accounts receivable are presented net of the allowance for doubtful accounts. Management's periodic evaluation of the adequacy of the allowance is based on its past experience and accounts receivable are charged off when deemed uncollectible. At June 30, 2022 and 2021, the allowance for doubtful accounts was \$33,000 and \$18,000, respectively.

At June 30, 2022 and 2021, accounts receivable consist of \$547,837 and \$278,169, respectively, from government program contract revenue, and \$142,827 and \$133,109, respectively, of funds to be received from the Organization's various online bookstore websites and the bookstore's credit card merchant processor and other sources. Accounts determined to be uncollectible are charged to operations in the period that the determination is made. Grants receivable consist of operating amounts totaling \$660,880 and \$999,880 at June 30, 2022 and 2021, respectively.

Sales Taxes

The Organization records the amount of sales taxes charged to customers as a component of gross sales and it is deducted from gross sales when paid to arrive at earned revenue.

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2022 and 2021

Note 2. Summary of Significant Accounting Policies (Continued)

Shipping and Handling Costs

The Organization records shipping and handling costs as part of sales expenses, which are reported in the statements of activities and changes in net assets.

Advertising

The Organization expenses advertising costs as they are incurred in the amounts of \$59,477 and \$66,092 in 2022 and 2021, respectively, and has categorized these costs as marketing expense.

Change in accounting estimate

The Organization receives a significant amount of donated books and clothing (all of which are in varying condition and value) that are used in its business training program (some items are selected to be sold in its online and retail stores, while those that do not meet certain requirements are sold via wholesale and/or recycled). The Organization periodically reviews the estimated value of these items, and for the year ended June 30, 2022, the Organization determined that the actual net cash flows from the sale of these items was higher than its previous carrying value. As a result, the Organization changed its estimated value of these items to better reflect what the cost basis would be if it had purchased these items and sold them at a normal margin in each sales channel. The effect of this change was an increase of approximately \$94,000 in the carrying value of the inventory of donated books and clothing, compared to the year ended June 30, 2021, which is recorded as a change in accounting estimate in the Statement of Activities and Changes in Net Assets.

Reclassifications

Certain reclassifications have been made to the prior-year financial statements in order for them to be in conformity with the current-year presentation. The reclassifications were immaterial and did not result in any changes to the beginning net assets.

Inventory

Inventory consists of purchased and donated goods ready for sale. Purchased inventory is stated at lower of cost or market, using the first-in, first-out method. Donated inventory is valued at the estimated fair value using the retail method of accounting for inventory whereby ending inventory represents the present value of future cash flows, or the future selling price, reduced to an estimated cost basis using the average margin on sales of goods. For the years ended June 30, 2022 and 2021, inventory consisted of the following:

	<u>2022</u>	<u>2021</u>
Donated books and clothing	\$ 94,412	\$ -
Purchased books, clothing and other items	<u>63,292</u>	<u>37,301</u>
Total inventory	<u>\$ 157,704</u>	<u>\$ 37,301</u>

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2022 and 2021

Note 3. Concentration of Credit Risk

The Organization maintains cash balances at local financial institutions. The accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. In addition, certain banks also are insured by the Depositors Insurance Fund (DIF), which insures all deposits above the FDIC insurance amount. At certain times during the year, cash balances may have exceeded the insured amounts. The Organization has not experienced any losses in the account. The Organization believes it is not exposed to any significant credit risk on its operating cash balance and certificate of deposit. At June 30, 2022 and 2021, the Organization has cash balances exceeding the FDIC and DIF insurance amounts by \$1,579,682 and \$449,051, respectively.

Note 4. Revenue and Receivable Concentrations

The Organization's program service fees (earned revenues), governmental contract revenue and contributed support is earned or received from various sources. There are no concentrations of revenues and support to total revenue and support that are significant individually. Approximately 79% of accounts receivable for the year ended June 30, 2022 are from Departments of the Commonwealth of Massachusetts and 68% of accounts receivable for the year ended June 30, 2021 are from Departments of the Commonwealth of Massachusetts. Approximately 53% and 65% of the grants receivable for the years ended June 30, 2022 and 2021, respectively, are from two and five separate donors, respectively.

Note 5. Donated Stock

During the years ended June 30, 2022 and 2021, the Organization received donations of stocks with a total fair market value at the date of donation of \$73,578 and \$59,712, respectively. The Organization has liquidated all donated stocks as of June 30, 2022.

Note 6. Donated Goods and Services

For the years ended June 30, 2022, the Organization received donated goods and services. Unless otherwise noted, contributed goods and services are reported as received without donor restrictions. Contributed professional services are utilized within the Organizations programs and are valued and reported at the estimated fair market value based on current rates for similar services. In addition, a few individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs and various assignments that have not been recorded in these financial statements. Donated in-kind goods that the Organization received are used as part of the youth program running the book, clothing, and online social enterprise ventures. All the donated in-kind goods are valued at estimated fair market value and are evaluated for salability by the youth and items that are considered salable are used and added to the inventory, either online at the various webstores or at the brick-and-mortar stores. Those in-kind goods that are determined not to be salable are either wholesaled or recycled. Therefore, the in-kind goods are both utilized and monetized as part of the youth program, which is to instruct the youth to run an online and retail bookstore. Gift cards are recorded at face value and are utilized in the program by giving them out to the youth for various needs.

MORE THAN WORDS, INC.

*Notes to Financial Statements
For the Years Ended June 30, 2022 and 2021*

Note 6. Donated Goods and Services (Continued)

For the years ended June 30, 2022 and 2021, the Organization received donated in-kind goods and services as follows:

	<u>2022</u>	<u>2021</u>
Books and clothing	\$ 232,890	\$ -
Professional legal services	44,525	74,491
Professional strategic planning	-	100,000
Staff Training	22,500	-
Gift cards	5,000	-
	<u>\$ 304,915</u>	<u>\$ 174,491</u>

Note 7. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following:

	<u>2022</u>	<u>2021</u>
Restricted for future operating activities:		
Cash and cash equivalents	\$ 903,913	\$ 255,401
Grants receivable, net	528,120	593,120
	<u>\$ 1,432,033</u>	<u>\$ 848,521</u>

Note 8. Line of Credit

The Organization maintains a line of credit for \$2,500,000 bearing an interest rate of 2% on any borrowings, subject to certain financial covenants secured by all assets of the Organization. The balance for each of the years ended June 30, 2022 and 2021 was \$0.

MORE THAN WORDS, INC.

*Notes to Financial Statements
For the Years Ended June 30, 2022 and 2021*

Note 9. Right-to-Use Assets

The Organization has elected to implement new lease reporting for operating leases as outlined in FASB ASU No. 2016-02, *Leases (Topic 842)*. See Note 2 for a detailed discussion. Right-to-use assets consist of the right to use two pieces of commercial rental property located on Felton Street, Waltham, Massachusetts and East Berkeley Street, Boston, Massachusetts. Amortized rent expense was \$692,965 for each years ended June 30, 2022 and 2021. Values of the right-to-use assets at June 30 consist of the following:

	<i>2022</i>	<i>2021</i>
Right-to-use property located on Felton Street	\$ 615,500	\$ 615,500
Less: rent expensed	(424,817)	(304,386)
Less: remaining present value interest	(3,269)	(8,406)
<i>Total Felton Street</i>	187,414	302,708
Right-to-use property located on East Berkeley Street	9,156,216	9,156,216
Less: rent expensed	(3,195,140)	(2,622,875)
Less: remaining present value interest	(652,751)	(774,023)
<i>Total East Berkeley Street</i>	5,308,325	5,759,318
<i>Total right-to-use assets</i>	\$ 5,495,739	\$ 6,062,026

Note 10. Lease Liabilities

The Organization has elected to implement new lease reporting for operating leases as outlined in FASB ASU No. 2016-02, *Leases (Topic 842)*.

On May 9, 2018, the Organization and landlord opted to amend the original lease for office and warehouse space in Waltham, Massachusetts. The original lease was entered into on November 15, 2013. The amended lease extends the lease term for five additional years. For the original space, the amendment quantified the amount to be paid over the life of the first five-year option term. The Organization also leased additional space on the second floor of the building, commencing on October 1, 2018, the date the Organization had 24-hour control of the second-floor premises. Total payments under the lease for the years ended June 30, 2022 and 2021 were \$121,500 and \$118,875, respectively. The Organization is also responsible for a pro rata share of the landlord's operating and building costs during the first amendment term, calculated as the excess over the base tax year of fiscal tax year 2019.

The Organization also has the option to lease additional adjacent space on the second floor upon informing the lessor with written notice no less than six months prior to occupying, for the same terms as the original and additional second floor premises. The Organization has the option to renew this lease at the end of the first amendment term upon no less than six months' prior written notice. At that time, rent will be determined as 95% of market during the renewal term, but not less than the rent at the end of the first amendment term.

MORE THAN WORDS, INC.

*Notes to Financial Statements
For the Years Ended June 30, 2022 and 2021*

Note 10. Lease Liabilities (Continued)

Effective December 1, 2016, the Organization entered into a new lease agreement expanding the operating location in Boston, Massachusetts. The terms of the new lease commence on December 1, 2016 and expire on November 30, 2032. The lease includes, as additional rent, additional charges for real estate taxes in excess of such taxes assessed for the year ended June 30, 2017. In addition, the lease includes, as additional rent, any assessments, ordinary or extraordinary, assessed by the landlord. With a minimum of two years' notice, the landlord may terminate the lease at any time after November 30, 2029. The Organization, with 18 months' notice, may terminate the lease on November 30, 2021 or November 30, 2026. The total payments under the lease for the years ended June 30, 2022 and 2021 were \$560,312 and \$549,515, respectively.

Values of the lease liabilities at June 30 consist of the following:

	2022	2021
Felton Street lease:		
Total lease liability	\$ 615,500	\$ 615,500
Lease payments made from inception	(297,125)	(178,250)
Present value discount	(8,406)	(15,827)
Lease liability, beginning of year	309,969	421,423
Current-year lease payments	(121,500)	(118,875)
Current-year present value discount	5,137	7,421
Lease liability, end of year	\$ 193,606	\$ 309,969
East Berkeley Street lease:		
Total lease liability	\$ 9,156,216	\$ 9,156,216
Lease payments made from inception	(2,119,439)	(1,569,924)
Present value discount	(774,023)	(903,865)
Lease liability, beginning of year	6,262,754	6,682,427
Current-year lease payments	(560,312)	(549,515)
Current-year present value discount	121,271	129,842
Lease liability, end of year	\$ 5,823,713	\$ 6,262,754

MORE THAN WORDS, INC.

*Notes to Financial Statements
For the Years Ended June 30, 2022 and 2021*

Note 10. Lease Liabilities (Continued)

A breakdown of leases into short-term and long-term is as follows:

	2022	2021
Current portion of lease liability:		
Felton Street lease	\$ 120,593	\$ 116,363
East Berkeley Street lease	458,796	439,041
Total current portion	\$ 579,389	\$ 555,404
Long-term portion of lease liability:		
Felton Street lease	\$ 73,012	\$ 193,606
East Berkeley Street lease	5,364,918	5,823,713
Total long-term portion	\$ 5,437,930	\$ 6,017,319
Total lease liability	\$ 6,017,319	\$ 6,572,723

The future minimum rental commitments for these leases at June 30, 2022 are as follows:

Years ending June 30:	
2023	\$ 694,481
2024	655,387
2025	592,668
2026	603,449
2027	614,230
Thereafter	3,513,126
Total commitments	\$ 6,673,341
Present value interest	(656,022)
Present value of lease liability at June 30, 2022	\$ 6,017,319

Note 11. Excess (Deficit) of Revenue from the Commonwealth of Massachusetts (unaudited)

The Commonwealth of Massachusetts Not-For-Profit Provider Surplus Revenue Retention Policy pursuant to 808 CMR 1.19(3) of Pricing, Reporting and Auditing for Social Programs allows a provider to retain, for future use, a portion of annual net surplus. This net surplus, from the revenues and expenses associated with service providers to purchasing agencies, which are subject to 808 CMR 1.00, may not exceed 20% of the provider's prior-year revenue from purchasing agencies. MTW's computations indicate that the accumulated surplus retention for the year ended June 30, 2022 is not in excess of regulatory limits.

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2022 and 2021

Note 12. Conditional Promise to Give

The Organization has been identified as a recipient organization for a “public benefit commitment” grant in the amount of \$100,000. The grant proceeds are tied to certain events related to a mixed-use development project in proximity to the Boston location. When the building permit was issued, the Organization received \$50,000 from the Boston Planning & Development Agency. The Organization is expected to receive the final \$50,000 once the initial Certificate of Occupancy for the project is issued and the developer pays the final contractual contribution to the Boston Planning & Development Agency. The final \$50,000 has not been and will not be recorded until the conditions described above have been satisfied.

Note 13. Availability of Financial Assets

The following reflects the Organization’s financial assets at June 30, 2022 and 2021, reduced by amounts that are not available for general use because of donor-imposed restrictions within one year of the statement of financial position date:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 5,437,545	\$ 4,350,258
Accounts and grants receivable	1,318,544	1,393,158
Total financial assets	<u>6,756,089</u>	<u>5,743,416</u>
Less: unavailable for general expenditures within one year:		
Donor-imposed restrictions for purpose and time	<u>782,913</u>	<u>190,401</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,973,176</u>	<u>\$ 5,553,015</u>

The Organization relies on annual donations, unrestricted grants and fundraising event revenue to fund its operations and program activities. In addition, the Organization has government contracts and various sources of earned revenue, as well as a line of credit available from another nonprofit organization that is to be used as bridge funding for growth campaign grants receivable, which can be used for general expenditure.

The Organization has certain donor-restricted assets limited to use that are available for general expenditure within one year in the normal course of operation. Accordingly, these assets have been included above.

Note 14. Retirement Plan

The Organization sponsors a 401(k) plan covering all adult staff meeting the eligibility requirements. The Organization makes a discretionary matching contribution of up to 3% of eligible salaries. For the years ended June 30, 2022 and 2021, the Organization accrued contributions of \$51,538 and \$52,014, respectively.

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2022 and 2021

Note 15. Supplemental Disclosures of Cash Flow and Non-Cash Information

Noncash Transactions

The Organization had noncash changes to inventory of \$94,412 for the year ended June 30, 2022. The Organization had present value discount amounts related to the right-to-use-asset and lease liability of \$126,408 and \$137,263 for the years ended June 30, 2022 and 2021, respectively. These present value discounts increase the right-to-use asset and lease liability. For the year ended June 30, 2021, the Organization recorded a noncash financing activity debt forgiveness in the amount of \$834,267, with associated accrued interest of \$10,331 related to the U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP) loan.

Note 16. SBA PPP Loan

On April 17, 2020, the Organization was granted a loan for \$834,267 pursuant to the PPP. The Organization has applied for and been granted forgiveness for this loan and associated accumulated interest of \$10,331. The forgiveness income is reported as a governmental PPP grant.

Note 17. Fundraising Expenses

The Organization engages in an annual mass mailing and distribution of program materials for grant proposals to raise funds for the programs. Total fundraising expenses for the years ended June 30, 2022 and 2021 were \$494,277 and \$435,418, respectively.

Note 18. Subsequent Events

ASC 855-10, *Subsequent Events*, defines further disclosure requirements for events that occur after the statement of financial position date but before financial statements are issued. In accordance with ASC 855-10, the Organization's management has evaluated events subsequent to June 30, 2022 through November 1, 2022, which is the date the financial statements were available to be issued. The World Health Organization declared a novel coronavirus (COVID-19) outbreak a Public Health Emergency of International Concern. This could adversely affect the Organization's donors, members, and suppliers as a result of quarantines, facility closures, and travel and logistics restrictions in connection with the outbreak. More broadly, the outbreak could affect workforces, economies and financial markets globally, potentially leading to an economic downturn. This could decrease spending, adversely affect demand for the Organization's services and harm the Organization's business and results of operations. Management continues to monitor the outbreak; however, as of the date of these financial statements, its potential impact on the Organization's business cannot be quantified.

Supplemental Schedule

MORE THAN WORDS, INC.

Program Activities Presentation For the Years Ended June 30, 2022 and 2021

More Than Words, Inc. presents its gross sales and program expenses on the statements of activities and changes in net assets as earned revenue and sales expenses for its internet and in-store book sales, training program, and event training program. The programs are composed of the following revenue and expenses, which excludes the cost of goods sold related to items donated in-kind totaling \$232,310 and \$0 for the years ended June 30, 2022 and 2021, respectively:

	<i>2022</i>	<i>2021</i>
Internet Book Revenue:		
Revenue:		
Sales, net of refunds	\$ 2,188,529	\$ 2,984,126
Expenses:		
Shipping and other costs	973,443	1,157,384
Commissions and fees	739,040	962,420
	1,712,483	2,119,804
<i>Net earned revenue</i>	\$ 476,046	\$ 864,322
In-Store Revenue:		
Revenue:		
Sales, net of refunds	278,873	962
Expenses:		
Cost of goods sold	88,050	2,176
	88,050	2,176
<i>Net earned revenue</i>	\$ 190,823	\$ (1,214)
Wholesale Sales:		
Revenue:		
Wholesale revenue	305,878	268,077
Expenses:		
Shipping and other costs	122,414	111,398
	122,414	111,398
<i>Net earned revenue</i>	\$ 183,464	\$ 156,679
Pop-Up Sales:		
Revenue:		
Pop-up sales	5,088	1,234
Expenses:		
Cost of goods sold	3,999	9,472
	3,999	9,472
<i>Net earned revenue</i>	\$ 1,089	\$ (8,238)
Rentals, Events and Training Institute:		
Revenue:		
Sales	127,797	143
Expenses:		
Cost of goods sold	4,855	760
	4,855	760
<i>Net earned revenue</i>	\$ 122,942	\$ (617)
Non-Book Internet Sales:		
Revenue:		
Sales	151,746	200,776
Expenses:		
Cost of goods sold	66,499	69,401
	66,499	69,401
<i>Net earned revenue</i>	\$ 85,247	\$ 131,375
Total Earned Revenue	\$ 3,057,911	\$ 3,455,318
Total Sales Expenses	(1,998,300)	(2,313,011)
<i>Total net earned revenue</i>	\$ 1,059,611	\$ 1,142,307

Raffol and Company, Inc.
Certified Public Accountants

Kenneth J. Raffol, CPA, MST • Jonathan R. Vitale, CPA, MSA

***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***

To the Board of Directors
More Than Words, Inc.
Waltham, 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 More Than Words, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 1, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered More Than Words, Inc.'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 More Than Words, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of More Than Words, Inc.'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. 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 were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether More Than Words, Inc.'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 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Raffel and Company".

Needham, Massachusetts
November 1, 2022