

Raffol and Company, Inc.
Certified Public Accountants

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

MORE THAN WORDS, INC.



Financial Statements
For the Years Ended June 30, 2021 and 2020

MORE THAN WORDS, INC.

***Financial Statements
For the Years Ended June 30, 2021 and 2020***

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of More Than Words, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of More Than Words, Inc. as of June 30, 2021 and 2020, 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.

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 11, 2021 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 an audit performed in accordance with *Government Auditing Standards* in considering More Than Words, Inc.'s internal control over financial reporting and compliance.



Needham, Massachusetts
November 11, 2021

MORE THAN WORDS, INC.

***Statements of Financial Position
As of June 30, 2021 and 2020***

	2021	2020
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,350,258	\$ 4,464,760
Accounts receivable, net of allowance for doubtful accounts of \$18,000 and \$0 for 2021 and 2020, respectively	393,278	533,123
Grants receivable	889,880	813,420
Inventory	37,301	20,770
Prepaid expenses	96,245	99,165
Total current assets	5,766,962	5,931,238
Property and Equipment, net	3,121,863	3,338,077
Long-Term Assets:		
Grants receivable	110,000	272,500
Other Assets:		
Investments	-	15,404
Deferred finance costs, net	5,492	9,153
Security deposits	25,436	25,436
Right-to-use assets	6,062,026	6,617,458
Total other assets	6,092,954	6,667,451
Total assets	\$ 15,091,779	\$ 16,209,266
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 144,792	\$ 75,637
Refundable advance, PPP loan	-	835,959
Lease liability	555,404	531,126
Grants payable	696	1,050
Deferred income	35,825	51,957
Accrued expenses	322,705	321,182
Total current liabilities	1,059,422	1,816,911
Long-Term Liabilities:		
Lease liability, net of current portion	6,017,319	6,572,724
Total liabilities	7,076,741	8,389,635
Net Assets:		
Without donor restrictions	7,166,517	6,482,283
With donor restrictions	848,521	1,337,348
Total net assets	8,015,038	7,819,631
Total liabilities and net assets	\$ 15,091,779	\$ 16,209,266

See accompanying notes to financial statements.

MORE THAN WORDS, INC.

***Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2021 and 2020***

	2021			2020		
	<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	\$ 1,697,133	\$ 1,425,380	\$ 3,122,513	\$ 2,269,186	\$ 1,872,420	\$ 4,141,606
Contributed support - growth campaign	-	-	-	-	292,580	292,580
Governmental contract revenue	1,325,816	-	1,325,816	1,516,297	-	1,516,297
Governmental PPP grant	844,598	-	844,598	-	-	-
Event donations:						
Revenues	26,000	-	26,000	307,873	64,150	372,023
Released from restrictions	-	-	-	176,650	(176,650)	-
Expenses	-	-	-	(137,237)	-	(137,237)
<i>Net special event revenue</i>	26,000	-	26,000	347,286	(112,500)	234,786
Earned revenue	3,455,318	-	3,455,318	3,648,488	-	3,648,488
Investment income	11,305	-	11,305	451	-	451
Contributed services	174,491	-	174,491	-	-	-
Other income	27,076	-	27,076	33,560	-	33,560
Net assets released from restrictions:						
Operating	1,814,207	(1,814,207)	-	1,041,302	(1,041,302)	-
Growth campaign	100,000	(100,000)	-	1,515,188	(1,515,188)	-
<i>Total revenue and support</i>	9,475,944	(488,827)	8,987,117	10,371,758	(503,990)	9,867,768
Expenses:						
Sales expenses	2,313,011	-	2,313,011	2,238,177	-	2,238,177
Other program expenses	5,172,722	-	5,172,722	5,423,855	-	5,423,855
<i>Total program</i>	7,485,733	-	7,485,733	7,662,032	-	7,662,032
General and administrative	870,559	-	870,559	526,014	-	526,014
Fundraising	435,418	-	435,418	368,889	-	368,889
<i>Total expenses</i>	8,791,710	-	8,791,710	8,556,935	-	8,556,935
<i>Increase (decrease) in net assets</i>	684,234	(488,827)	195,407	1,814,823	(503,990)	1,310,833
Net Assets, beginning of year	6,482,283	1,337,348	7,819,631	4,667,460	1,841,338	6,508,798
Net Assets, end of year	<u>\$ 7,166,517</u>	<u>\$ 848,521</u>	<u>\$ 8,015,038</u>	<u>\$ 6,482,283</u>	<u>\$ 1,337,348</u>	<u>\$ 7,819,631</u>

See accompanying notes to financial statements.

MORE THAN WORDS, INC.

*Statements of Cash Flows
For the Years Ended June 30, 2021 and 2020*

	<i>2021</i>	<i>2020</i>
Cash Flows from Operating Activities:		
Increase in net assets	\$ 195,407	\$ 1,310,833
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	326,751	336,751
Amortization of right-to-use asset	692,695	692,695
Non-cash stock donations	(59,712)	(51,413)
Realized loss (gain) on investments	32,556	(2,548)
Unrealized (gain) loss on investments	(39,896)	3,163
Governmental PPP grant	(844,598)	-
Bad debts	18,000	-
Interest expense	8,639	-
Changes in:		
Accounts receivable	121,845	(273,110)
Grants receivable	86,040	(137,620)
Inventory	(16,531)	(409)
Prepaid expenses	2,920	(23,517)
Accounts payable and accrued expenses	70,678	1,269
Grants payable and deferred revenue	(16,486)	(114,631)
<i>Net cash provided by operating activities</i>	578,308	1,741,463
Cash Flows from Investing Activities:		
Proceeds from the sale of investments	82,456	64,190
Purchase of investments	-	(191)
Purchase of property and equipment	(106,876)	(33,682)
<i>Net cash (used in) provided by investing activities</i>	(24,420)	30,317
Cash Flows from Financing Activities:		
Proceeds from refundable advance, PPP loan	-	834,267
Payments on lease liability	(668,390)	(655,733)
<i>Net cash (used in) provided by financing activities</i>	(668,390)	178,534
<i>Net (decrease) increase in cash and cash equivalents</i>	(114,502)	1,950,314
Cash and Cash Equivalents, beginning of year	4,464,760	2,514,446
Cash and Cash Equivalents, end of year	\$ 4,350,258	\$ 4,464,760

See accompanying notes to financial statements.

MORE THAN WORDS, INC.

***Statement of Functional Expenses
For the Year Ended June 30, 2021 and 2020***

	2021				2020			
	<i>Total Program</i>	<i>General and Administrative</i>	<i>Fundraising</i>	<i>Total</i>	<i>Total Program</i>	<i>General and Administrative</i>	<i>Fundraising</i>	<i>Total</i>
Sales Expenses:								
Shipping and other costs	\$ 1,349,831	\$ -	\$ -	\$ 1,349,831	\$ 1,207,027	\$ -	\$ -	\$ 1,207,027
Commissions and fees	963,180	-	-	963,180	1,031,150	-	-	1,031,150
<i>Total sales expenses</i>	2,313,011	-	-	2,313,011	2,238,177	-	-	2,238,177
Personnel Costs:								
Adult staff wages and compensation	2,458,731	254,575	210,163	2,923,469	2,535,787	205,463	185,500	2,926,750
Payroll taxes	228,683	18,335	20,850	267,868	238,974	12,137	14,592	265,703
Employee benefits	196,233	58,900	24,829	279,962	187,434	28,559	25,017	241,010
Payroll processing fee	5,545	588	498	6,631	6,920	372	436	7,728
<i>Total personnel costs</i>	2,889,192	332,398	256,340	3,477,930	2,969,115	246,531	225,545	3,441,191
Youth Stipends:								
Youth staff wages and compensation	692,323	-	-	692,323	878,271	-	-	878,271
Payroll taxes	66,440	-	-	66,440	80,962	-	-	80,962
Payroll processing fees	15,825	-	-	15,825	12,453	-	-	12,453
<i>Total youth stipends</i>	774,588	-	-	774,588	971,686	-	-	971,686
Other Operating Expenses:								
Marketing and communication expenses	456	10	65,626	66,092	3,687	1,074	43,528	48,289
Technology	24,411	2,602	2,087	29,100	21,563	6,473	1,577	29,613
Insurance	63,228	6,547	5,405	75,180	68,349	5,538	5,000	78,887
Supplies	138,344	2,124	297	140,765	134,747	9,379	800	144,926
Evaluation	16,646	-	-	16,646	16,055	-	-	16,055
Legal and accounting	-	147,505	-	147,505	-	110,438	-	110,438
Other professional fees	136,966	29,834	-	166,800	89,667	14,653	-	104,320
Donated in-kind professional services	-	174,491	-	174,491	-	-	-	-
Vehicle	61,710	185	-	61,895	65,644	122	-	65,766
Grants	4,000	1,000	-	5,000	4,000	-	-	4,000
Dues and subscriptions	15,588	24,894	17,479	57,961	14,344	17,807	16,164	48,315
Job postings	4,339	20	-	4,359	6,796	10	-	6,806
Professional development	3,253	4,724	-	7,977	4,533	2,855	20	7,408
Travel and meetings	7,363	75	-	7,438	9,121	215	96	9,432
Interest expense	-	8,639	-	8,639	-	1,692	-	1,692
Bad debts	-	22,750	-	22,750	-	18,572	-	18,572
Other expenses	1,406	2,326	39	3,771	3,469	2,640	-	6,109
<i>Total other operating expenses</i>	477,710	427,726	90,933	996,369	441,975	191,468	67,185	700,628

See accompanying notes to financial statements.

MORE THAN WORDS, INC.

Statement of Functional Expenses (Continued)
For the Year Ended June 30, 2021 and 2020

	<i>2021</i>				<i>2020</i>			
	<i>Total Program</i>	<i>General and Administrative</i>	<i>Fundraising</i>	<i>Total</i>	<i>Total Program</i>	<i>General and Administrative</i>	<i>Fundraising</i>	<i>Total</i>
Occupancy Expenses:								
Building rent	582,578	60,320	49,797	692,695	600,163	48,628	43,904	692,695
Equipment rental	6,950	720	594	8,264	6,845	555	501	7,901
Facility repair and maintenance	108,914	11,277	9,309	129,500	80,196	6,498	5,867	92,561
Utilities	61,061	6,322	5,219	72,602	65,281	5,289	4,775	75,345
<i>Total occupancy expenses</i>	<u>759,503</u>	<u>78,639</u>	<u>64,919</u>	<u>903,061</u>	<u>752,485</u>	<u>60,970</u>	<u>55,047</u>	<u>868,502</u>
<i>Total expenses before depreciation</i>	<u>7,214,004</u>	<u>838,763</u>	<u>412,192</u>	<u>8,464,959</u>	<u>7,373,438</u>	<u>498,969</u>	<u>347,777</u>	<u>8,220,184</u>
Depreciation and Amortization Expense	271,729	31,796	23,226	326,751	288,594	27,045	21,112	336,751
 <i>Total expenses</i>	 <u>\$ 7,485,733</u>	 <u>\$ 870,559</u>	 <u>\$ 435,418</u>	 <u>\$ 8,791,710</u>	 <u>\$ 7,662,032</u>	 <u>\$ 526,014</u>	 <u>\$ 368,889</u>	 <u>\$ 8,556,935</u>

See accompanying notes to financial statements.

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2021 and 2020

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.

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:

- 46% are involved with the child welfare system
- 39% are court-involved with the juvenile or adult justice systems
- 40% experience homelessness
- 10% are out of school

MTW youth work approximately 20 hours each week, running every aspect of a \$3.5 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. 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. MTW graduates receive two years of proactive support in pursuing jobs and education in a Career Services Program.

In response to the COVID-19 crisis, MTW has transitioned to a hybrid model, engaging youth in virtual workshops and intensive case management via phone and Zoom while continuing to serve youth onsite in business shifts. MTW provided extensive community services for youth, including food resources, and maintained youth connections and progress. In the spring and summer of 2021, MTW returned to a fully onsite model and re-opened its stores and events business to the public.

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 partners Bridge Over Troubled Waters Inc. and 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, 2021 and 2020***

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>2021</u>	<u>2020</u>
Lease expense - statement of activities and changes in net assets	\$ 692,695	\$ 692,695
Lease payments paid in cash	(668,390)	(655,733)
<i>Lease expense in excess of cash paid</i>	<u>\$ 24,305</u>	<u>\$ 36,962</u>

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2021 and 2020

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

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.

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.

Inventory

Inventory is stated at lower of cost or market, using the first-in, first-out method. The Organization receives donated books, clothing, shoes and accessories, which have not been valued in the financial statements.

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, 2021 and 2020.

MORE THAN WORDS, INC.

*Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020*

Note 2. Summary of Significant Accounting Policies (Continued)

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>2021</u>	<u>2020</u>
Equipment and furniture	\$ 595,639	\$ 568,240
Computer software	23,583	23,583
Computers and equipment	92,718	92,718
Leasehold improvements	3,426,190	3,360,440
Signage	40,439	40,439
Vehicles	219,033	219,033
Website	38,341	24,613
Curriculum	16,700	16,700
	<u>4,452,643</u>	<u>4,345,766</u>
Less: accumulated depreciation	<u>1,330,780</u>	<u>1,007,689</u>
<i>Net book value of property and equipment</i>	<u><u>\$ 3,121,863</u></u>	<u><u>\$ 3,338,077</u></u>

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.

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2021 and 2020

Note 2. Summary of Significant Accounting Policies (Continued)

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. During the year ended June 30, 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, 2021 and 2020, the allowance for doubtful accounts was \$18,000 and \$0, respectively.

At June 30, 2021 and 2020, accounts receivable consist of \$278,169 and \$411,999, respectively, from government program contract revenue (DCF, DMH, DOE, DPH, DYS and WIOA), and \$133,109 and \$121,124, 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 \$999,880 and \$1,085,920 at June 30, 2021 and 2020, 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.

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 \$66,092 and \$48,289 in 2021 and 2020, respectively, and has categorized these costs as marketing expense.

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.

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2021 and 2020

Note 2. Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

The Organization has adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. ASU No. 2014-09 eliminated the transaction and industry-specific revenue recognition guidance under previous U.S. GAAP and replaced it with a principle-based approach for determining revenue recognition. The core principle of ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard improves the usefulness and understandability of the Organization's financial reporting.

Analysis of various provisions of ASU No. 2014-09 resulted in no significant changes in the way the Organization recognizes revenue, and therefore, no changes to the previously issued audited financial statements were required. The presentation and disclosures of revenue have been enhanced in accordance with the standards.

The Organization has adopted ASU No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*, as amended. ASU No. 2018-08 was issued to make it easier for not-for-profit organizations to evaluate whether gifts, grants or contracts should be accounted for as contributions, or as reciprocal (exchange) transactions accounted for under ASU No. 2014-09. Under the new guidance, all organizations are required to evaluate whether the resource provider (i.e., federal agency, foundation, corporation, etc.) is receiving commensurate value in a transfer of resources (i.e., assets or reduction/settlement of liabilities), and whether contributions are conditional or unconditional. If commensurate value is received by the resource provider, the transaction should be accounted for as an exchange transaction by applying ASU No. 2014-09. If commensurate value is not received by the resource provider (i.e., the transaction is non-exchange), the recipient organization would determine the transaction to be a contribution and determine whether the contribution is unconditional or conditional. The standard improves the usefulness and understandability of the Organization's financial reporting.

Analysis of various provisions of ASU No. 2018-08 resulted in no significant changes in the way the Organization recognizes revenue, and therefore, no changes to the previously issued audited financial statements were required. The presentation and disclosures of revenue have been enhanced in accordance with the standards.

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2021 and 2020

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, 2021 and 2020, the Organization has cash balances exceeding the FDIC and DIF insurance amounts by \$449,051 and \$19,945, 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 68% of accounts receivable for the year ended June 30, 2021 are from Departments of the Commonwealth of Massachusetts and 66% of accounts receivable for the year ended June 30, 2020 are from Departments of the Commonwealth of Massachusetts and two internet e-commerce sites. Approximately 65% and 65% of the grants receivable for the years ended June 30, 2021 and 2020, respectively, are from five and four separate donors, respectively.

Note 5. Donated Stock

During the years ended June 30, 2021 and 2020, the Organization received donations of stocks with a total fair market value at the date of donation of \$59,712 and \$51,413, respectively. The Organization has liquidated all donated stocks as of June 30, 2021.

Note 6. Fair Value Measurements

The Organization has adopted FASB Accounting Standards Codification (ASC) 820, which defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Organization considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. FASB ASC 820 also establishes a fair value hierarchy that requires the Organization to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The categorization of each investment type within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

MORE THAN WORDS, INC.

***Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020***

Note 6. Fair Value Measurements (Continued)

FASB ASC 820 establishes three levels of inputs that may be used to measure fair value:

- ***Level 1:*** Quoted prices in active markets for identical assets or liabilities at the measurement date;
- ***Level 2:*** Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- ***Level 3:*** Unobservable inputs that are supported by little or no market activity and that reflect the Organization's own assumptions about market participants and investment prices.

The Organization's investments of \$15,404 for the year ended June 30, 2020 were Level 1 investments.

Note 7. Donated Goods and Services

The Organization generally pays for services requiring specific expertise. During the year ended June 30, 2021, the Organization received \$174,491 in donated professional 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. The value of donated goods the Organization has sold is reported as earned revenue on the statements of activities and changes in net assets.

Note 8. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following:

	<u>2021</u>		<u>2020</u>
Restricted for future operating activities:			
Cash and cash equivalents	\$ 255,401	\$	433,728
Grants receivable, net	593,120		903,620
			<hr/>
<i>Total net assets with donor restrictions</i>	<i>\$ 848,521</i>	<i>\$</i>	<i>1,337,348</i>

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2021 and 2020

Note 9. 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, 2021 and 2020 was \$0.

Note 10. 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, 2021 and 2020 were \$435,418 and \$368,889, respectively.

Note 11. 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, 2021 and 2020, the Organization accrued contributions of \$52,014 and \$44,671, respectively.

Note 12. 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, 2021 and 2020. Values of the right-to-use assets at June 30 consist of the following:

	<u>2021</u>	<u>2020</u>
Right-to-use property located on Felton Street	\$ 615,500	\$ 615,500
Less: rent expensed	(304,386)	(183,955)
Less: remaining present value interest	(8,406)	(15,827)
Total Felton Street	<u>302,708</u>	<u>415,718</u>
Right-to-use property located on East Berkeley Street	9,156,216	9,156,216
Less: rent expensed	(2,622,875)	(2,050,611)
Less: remaining present value interest	(774,023)	(903,865)
Total East Berkeley Street	<u>5,759,318</u>	<u>6,201,740</u>
Total right-to-use assets	<u>\$ 6,062,026</u>	<u>\$ 6,617,458</u>

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2021 and 2020

Note 13. 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, 2021 and 2020 were \$118,875 and \$117,000, 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.

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, 2021 and 2020 were \$549,515 and \$538,733, respectively.

MORE THAN WORDS, INC.

*Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020*

Note 13. Lease Liabilities (Continued)

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

	<u>2021</u>	<u>2020</u>
Felton Street lease:		
Total lease liability	\$ 615,500	\$ 615,500
Lease payments made from inception	(178,250)	(61,250)
Present value discount	(15,827)	(25,423)
Lease liability, beginning of year	421,423	528,827
Current-year lease payments	(118,875)	(117,000)
Current-year present value discount	7,421	9,596
Lease liability, end of year	<u>\$ 309,969</u>	<u>\$ 421,423</u>
East Berkeley Street lease:		
Total lease liability	\$ 9,156,216	\$ 9,156,216
Lease payments made from inception	(1,569,924)	(1,031,191)
Present value discount	(903,865)	(1,041,893)
Lease liability, beginning of year	6,682,427	7,083,132
Current-year lease payments	(549,515)	(538,733)
Current-year present value discount	129,842	138,028
Lease liability, end of year	<u>\$ 6,262,754</u>	<u>\$ 6,682,427</u>

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

	<u>2021</u>	<u>2020</u>
Current portion of lease liability:		
Felton Street lease	\$ 116,363	\$ 111,454
East Berkeley Street lease	439,041	419,672
Total current portion	<u>\$ 555,404</u>	<u>\$ 531,126</u>
Long-term portion of lease liability:		
Felton Street lease	\$ 193,606	\$ 309,969
East Berkeley Street lease	5,823,713	6,262,755
Total long-term portion	<u>\$ 6,017,319</u>	<u>\$ 6,572,724</u>

MORE THAN WORDS, INC.

*Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020*

Note 13. Lease Liabilities (Continued)

The future minimum rental commitments for these leases at June 30, 2021 are as follows:

Years ending June 30:	
2022	\$ 681,812
2023	694,481
2024	655,387
2025	592,668
2026	603,449
Thereafter	<u>4,127,355</u>
Total commitments	7,355,152
Present value interest	<u>(782,429)</u>
Present value of lease liability at June 30, 2021	<u><u>\$ 6,572,723</u></u>

Note 14. Excess (Deficit) of Revenue from the Commonwealth of Massachusetts

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, 2021 is not in excess of regulatory limits.

MORE THAN WORDS, INC.

*Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020*

Note 15. Availability of Financial Assets

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 4,350,258	\$ 4,464,760
Accounts and grants receivable	1,393,158	1,619,043
Investments	-	15,404
Total financial assets	<u>5,743,416</u>	<u>6,099,207</u>
Less: unavailable for general expenditures within one year:		
Donor-imposed restrictions for purpose and time	<u>190,401</u>	<u>346,228</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 5,553,015</u></u>	<u><u>\$ 5,752,979</u></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 16. 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 construction project was not completed by MTW’s fiscal year-end. Accordingly, the final \$50,000 has not been and will not be recorded until the conditions described above have been satisfied.

MORE THAN WORDS, INC.

Notes to Financial Statements For the Years Ended June 30, 2021 and 2020

Note 17. Supplemental Disclosures of Non-Cash and Cash Flow Information

Noncash Transactions

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. The Organization had present value discount amounts related to the right-to-use-asset and lease liability of \$137,263 and \$147,624 for the years ended June 30, 2021 and 2020, respectively. These present value discounts increase the right-to-use asset and lease liability.

Note 18. 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 19. 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, 2021 through November 11, 2021, 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, 2021 and 2020

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:

	<i>2021</i>	<i>2020</i>
Internet Book Revenue:		
Revenue:		
Sales, net of refunds	\$ 2,984,126	\$ 2,884,692
Expenses:		
Shipping and other costs	1,157,384	1,031,657
Commissions and fees	962,420	1,011,949
	2,119,804	2,043,606
<i>Net earned revenue</i>	\$ 864,322	\$ 841,086
In-Store Revenue:		
Revenue:		
Sales, net of refunds	\$ 962	\$ 206,278
Expenses:		
Cost of goods sold	2,176	33,554
	(1,214)	172,724
<i>Net earned revenue</i>	\$ (1,214)	\$ 172,724
Wholesale Sales:		
Revenue:		
Wholesale revenue	\$ 268,077	\$ 335,930
Expenses:		
Shipping and other costs	111,398	126,169
	156,679	209,761
<i>Net earned revenue</i>	\$ 156,679	\$ 209,761
Pop-Up Sales:		
Revenue:		
Pop-up sales	\$ 1,234	\$ 81,302
Expenses:		
Cost of goods sold	9,472	15,647
	(8,238)	65,655
<i>Net earned revenue</i>	\$ (8,238)	\$ 65,655
Rentals, Events and Training Institute:		
Revenue:		
Sales	\$ 143	\$ 140,286
Expenses:		
Cost of goods sold	760	19,201
	(617)	121,085
<i>Net earned revenue</i>	\$ (617)	\$ 121,085
Non-Book Internet Sales:		
Revenue:		
Sales	\$ 200,776	-
Expenses:		
Cost of goods sold	69,401	-
	131,375	-
<i>Net earned revenue</i>	\$ 131,375	\$ -
Total Earned Revenue	\$ 3,455,318	\$ 3,648,488
Total Sales Expenses	(2,313,011)	(2,238,177)
<i>Total net earned revenue</i>	\$ 1,142,307	\$ 1,410,311

Raffol and Company, Inc.
Certified Public Accountants

Kenneth J. Raffol, CPA, MST • Richard A. Petrie • 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 corporation), which comprise the statement of financial position as of June 30, 2021, the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 11, 2021.

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) to determine the 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. 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 may exist that have not been identified.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of More Than Words, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering More Than Words, Inc.'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, LLC".

Needham, Massachusetts
November 11, 2021