

**LEO INC.
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2021 AND 2020
AND
SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS AND REPORTS ON COMPLIANCE
AND INTERNAL CONTROL
YEAR ENDED SEPTEMBER 30, 2021**

LEO INC.
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
LEO Inc.
Lynn, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of LEO Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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.

Auditor's 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 audit 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 auditor's 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 auditor considers 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 LEO Inc. as of September 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.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with 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 January 19, 2022, on our consideration of LEO Inc.'s internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LEO Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LEO Inc.'s internal control over financial reporting and compliance.



CERTIFIED PUBLIC ACCOUNTANTS

Braintree, Massachusetts
January 19, 2022

LEO INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2021 AND 2020

ASSETS

	<u>2021</u>	<u>2020</u>
Current assets:		
Cash and cash equivalents	\$ 6,000,580	\$ 5,699,388
Accounts receivable, net	2,568,070	502,091
Grants and contributions receivable, current portion	300,000	316,606
Prepaid expenses and other current assets	<u>136,618</u>	<u>101,686</u>
Total current assets	9,005,268	6,619,771
Property and equipment, net	5,180,627	5,083,955
Grants and contributions receivable, net of current portion	<u>365,817</u>	<u>512,415</u>
TOTAL ASSETS	<u>\$ 14,551,712</u>	<u>\$ 12,216,141</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Current portion of bond payable	\$ 91,725	\$ 87,688
Note payable	-	969,700
Accounts payable and accrued expenses	818,961	667,344
Refundable advances	<u>2,824,383</u>	<u>530,358</u>
Total current liabilities	3,735,069	2,255,090
Bond payable, net of current portion	<u>1,338,058</u>	<u>1,425,982</u>
Total liabilities	<u>5,073,127</u>	<u>3,681,072</u>
Net assets:		
Without donor restrictions, as adjusted (Note 2)	8,229,410	7,303,715
With donor restrictions, as adjusted (Note 2)	<u>1,249,175</u>	<u>1,231,354</u>
Total net assets	<u>9,478,585</u>	<u>8,535,069</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,551,712</u>	<u>\$ 12,216,141</u>

See accompanying notes to financial statements.

LEO INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	2021			2020		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenue and support:						
Contracts	\$ 11,512,386	\$ -	\$ 11,512,386	\$ 10,714,088	\$ -	\$ 10,714,088
Grants and contributions	50,687	486,691	537,378	35,603	1,070,275	1,105,878
Donated goods and services	88,663	-	88,663	737,693	-	737,693
Rental income	102,440	-	102,440	106,804	-	106,804
Program service fees	-	-	-	59,827	-	59,827
Other income	136,535	-	136,535	56,093	-	56,093
Net assets released from donor restrictions	<u>512,272</u>	<u>(512,272)</u>	<u>-</u>	<u>985,412</u>	<u>(985,412)</u>	<u>-</u>
Total revenue and support	<u>12,402,983</u>	<u>(25,581)</u>	<u>12,377,402</u>	<u>12,695,520</u>	<u>84,863</u>	<u>12,780,383</u>
Operating expenses:						
Program services:						
Child care	5,480,120	-	5,480,120	5,791,377	-	5,791,377
Community service	1,249,665	-	1,249,665	1,338,846	-	1,338,846
Energy assistance	<u>3,492,424</u>	<u>-</u>	<u>3,492,424</u>	<u>3,912,896</u>	<u>-</u>	<u>3,912,896</u>
Total program services	<u>10,222,209</u>	<u>-</u>	<u>10,222,209</u>	<u>11,043,119</u>	<u>-</u>	<u>11,043,119</u>
General and administrative services:						
General	1,387,642	-	1,387,642	1,379,979	-	1,379,979
Facilities	<u>224,389</u>	<u>-</u>	<u>224,389</u>	<u>224,151</u>	<u>-</u>	<u>224,151</u>
Total general and administrative services	<u>1,612,031</u>	<u>-</u>	<u>1,612,031</u>	<u>1,604,130</u>	<u>-</u>	<u>1,604,130</u>
Total operating expenses	<u>11,834,240</u>	<u>-</u>	<u>11,834,240</u>	<u>12,647,249</u>	<u>-</u>	<u>12,647,249</u>
Changes in net assets from operations	<u>568,743</u>	<u>(25,581)</u>	<u>543,162</u>	<u>48,271</u>	<u>84,863</u>	<u>133,134</u>
Non-operating activities:						
Capital grants and contributions, net	-	43,402	43,402	-	150,000	150,000
Capital campaign expenses	(6,902)	-	(6,902)	(27,547)	-	(27,547)
Forgiveness of Paycheck Protection Program loan	<u>363,854</u>	<u>-</u>	<u>363,854</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating activities	<u>356,952</u>	<u>43,402</u>	<u>400,354</u>	<u>(27,547)</u>	<u>150,000</u>	<u>122,453</u>
Changes in net assets	925,695	17,821	943,516	20,724	234,863	255,587
Net assets - beginning, as adjusted (Note 2)	<u>7,303,715</u>	<u>1,231,354</u>	<u>8,535,069</u>	<u>7,282,991</u>	<u>996,491</u>	<u>8,279,482</u>
NET ASSETS - ENDING, AS ADJUSTED (NOTE 2)	<u>\$ 8,229,410</u>	<u>\$ 1,249,175</u>	<u>\$ 9,478,585</u>	<u>\$ 7,303,715</u>	<u>\$ 1,231,354</u>	<u>\$ 8,535,069</u>

See accompanying notes to financial statements.

LEO INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2021
(with Comparative Totals for the Year Ended September 30, 2020)

	Program Services				General and Administrative Services			Total 2021	Total 2020
	Child Care	Community Services	Energy Assistance	Total Program Services	General	Facilities	Total General and Administrative Services		
Personnel costs:									
Salaries and related	\$ 3,666,752	\$ 412,658	\$ 466,547	\$ 4,545,957	\$ 844,391	\$ 36,104	\$ 880,495	\$ 5,426,452	\$ 5,083,411
Payroll taxes and fringe benefits	937,020	79,094	145,214	1,161,328	207,423	9,836	217,259	1,378,587	1,236,017
Total personnel costs	<u>4,603,772</u>	<u>491,752</u>	<u>611,761</u>	<u>5,707,285</u>	<u>1,051,814</u>	<u>45,940</u>	<u>1,097,754</u>	<u>6,805,039</u>	<u>6,319,428</u>
Direct program costs:									
Pass-through expenses	-	556,114	2,789,065	3,345,179	6,664	-	6,664	3,351,843	4,181,003
Staff training and travel	99,855	5,092	2,007	106,954	8,875	18	8,893	115,847	79,669
Donated goods and services	42,657	46,006	-	88,663	-	-	-	88,663	737,693
Consumer expenses, supplies and activities	80,192	6,410	-	86,602	-	-	-	86,602	69,953
Food	72,132	27	-	72,159	3,933	-	3,933	76,092	69,519
Advertising	28,435	4,418	6,755	39,608	722	-	722	40,330	22,525
Transportation	17,589	1,579	-	19,168	6,064	2,754	8,818	27,986	21,511
Waste disposal	15,684	-	-	15,684	-	7,617	7,617	23,301	16,489
Total direct program costs	<u>356,544</u>	<u>619,646</u>	<u>2,797,827</u>	<u>3,774,017</u>	<u>26,258</u>	<u>10,389</u>	<u>36,647</u>	<u>3,810,664</u>	<u>5,198,362</u>
Occupancy:									
Repairs and maintenance	125,147	9,125	17,549	151,821	18,186	25,253	43,439	195,260	167,693
Utilities	59,834	830	1,613	62,277	5,265	29,279	34,544	96,821	107,120
Interest	44,194	-	-	44,194	3,798	24,028	27,826	72,020	79,710
Property taxes	-	-	-	-	-	14,967	14,967	14,967	21,235
Total occupancy	<u>229,175</u>	<u>9,955</u>	<u>19,162</u>	<u>258,292</u>	<u>27,249</u>	<u>93,527</u>	<u>120,776</u>	<u>379,068</u>	<u>375,758</u>
Other costs:									
Professional fees	4,962	40,602	-	45,564	106,075	3,837	109,912	155,476	119,243
Office supplies and subscriptions	94,356	63,233	38,987	196,576	23,558	128	23,686	220,262	167,072
Telephone	39,994	3,503	5,500	48,997	44,008	555	44,563	93,560	94,355
Insurance	7,141	-	-	7,141	51,148	9,166	60,314	67,455	64,289
Dues and fees	18,979	9,371	484	28,834	21,330	539	21,869	50,703	38,698
Miscellaneous	-	1,976	650	2,626	25,146	-	25,146	27,772	25,812
Printing and postage	2,070	4,388	14,590	21,048	4,414	11	4,425	25,473	29,236
Equipment purchase and rental	5,052	-	3,463	8,515	6,642	-	6,642	15,157	12,951
Total other costs	<u>172,554</u>	<u>123,073</u>	<u>63,674</u>	<u>359,301</u>	<u>282,321</u>	<u>14,236</u>	<u>296,557</u>	<u>655,858</u>	<u>551,656</u>
Total operating expenses before depreciation	<u>5,362,045</u>	<u>1,244,426</u>	<u>3,492,424</u>	<u>10,098,895</u>	<u>1,387,642</u>	<u>164,092</u>	<u>1,551,734</u>	<u>11,650,629</u>	<u>12,445,204</u>
Depreciation	<u>118,075</u>	<u>5,239</u>	<u>-</u>	<u>123,314</u>	<u>-</u>	<u>60,297</u>	<u>60,297</u>	<u>183,611</u>	<u>202,045</u>
TOTAL EXPENSES	<u>\$ 5,480,120</u>	<u>\$ 1,249,665</u>	<u>\$ 3,492,424</u>	<u>\$ 10,222,209</u>	<u>\$ 1,387,642</u>	<u>\$ 224,389</u>	<u>\$ 1,612,031</u>	<u>\$ 11,834,240</u>	<u>\$ 12,647,249</u>

See accompanying notes to financial statements.

LEO INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Program Services				General and Administrative Services			Total
	Child Care	Community Services	Energy Assistance	Total Program Services	General	Facilities	Total General and Administrative Services	
Personnel costs:								
Salaries and related	\$ 3,453,035	\$ 350,678	\$ 360,885	\$ 4,164,598	\$ 874,728	\$ 44,085	\$ 918,813	\$ 5,083,411
Payroll taxes and fringe benefits	848,784	50,967	113,791	1,013,542	211,787	10,688	222,475	1,236,017
Total personnel costs	<u>4,301,819</u>	<u>401,645</u>	<u>474,676</u>	<u>5,178,140</u>	<u>1,086,515</u>	<u>54,773</u>	<u>1,141,288</u>	<u>6,319,428</u>
Direct program costs:								
Pass-through expenses	-	822,821	3,357,005	4,179,826	1,177	-	1,177	4,181,003
Donated goods and services	701,791	35,902	-	737,693	-	-	-	737,693
Staff training and travel	66,484	4,979	7,048	78,511	1,158	-	1,158	79,669
Consumer expenses, supplies and activities	68,899	124	-	69,023	874	56	930	69,953
Food	65,309	3,081	-	68,390	1,129	-	1,129	69,519
Advertising	11,682	4,640	5,701	22,023	502	-	502	22,525
Transportation	15,374	-	-	15,374	3,399	2,738	6,137	21,511
Waste disposal	10,042	-	-	10,042	-	6,447	6,447	16,489
Total direct program costs	<u>939,581</u>	<u>871,547</u>	<u>3,369,754</u>	<u>5,180,882</u>	<u>8,239</u>	<u>9,241</u>	<u>17,480</u>	<u>5,198,362</u>
Occupancy:								
Repairs and maintenance	124,108	26	9,115	133,249	17,901	16,543	34,444	167,693
Utilities	64,179	661	2,007	66,847	6,978	33,295	40,273	107,120
Interest	46,820	-	-	46,820	7,434	25,456	32,890	79,710
Property taxes	-	-	-	-	-	21,235	21,235	21,235
Total occupancy	<u>235,107</u>	<u>687</u>	<u>11,122</u>	<u>246,916</u>	<u>32,313</u>	<u>96,529</u>	<u>128,842</u>	<u>375,758</u>
Other costs:								
Professional fees	23,561	25,980	-	49,541	69,702	-	69,702	119,243
Office supplies and subscriptions	71,113	18,566	40,207	129,886	37,125	61	37,186	167,072
Telephone	45,107	3,487	4,793	53,387	40,484	484	40,968	94,355
Insurance	4,328	-	-	4,328	57,709	2,252	59,961	64,289
Dues and fees	17,607	7,404	671	25,682	12,502	514	13,016	38,698
Printing and postage	4,432	8,434	8,498	21,364	7,872	-	7,872	29,236
Miscellaneous	2,935	1,096	-	4,031	21,781	-	21,781	25,812
Equipment purchase and rental	4,631	-	3,175	7,806	5,145	-	5,145	12,951
Total other costs	<u>173,714</u>	<u>64,967</u>	<u>57,344</u>	<u>296,025</u>	<u>252,320</u>	<u>3,311</u>	<u>255,631</u>	<u>551,656</u>
Total operating expenses before depreciation	5,650,221	1,338,846	3,912,896	10,901,963	1,379,387	163,854	1,543,241	12,445,204
Depreciation	141,156	-	-	141,156	592	60,297	60,889	202,045
TOTAL EXPENSES	<u>\$ 5,791,377</u>	<u>\$ 1,338,846</u>	<u>\$ 3,912,896</u>	<u>\$ 11,043,119</u>	<u>\$ 1,379,979</u>	<u>\$ 224,151</u>	<u>\$ 1,604,130</u>	<u>\$ 12,647,249</u>

See accompanying notes to financial statements.

LEO INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Operating activities:		
Changes in net assets	\$ 943,516	\$ 255,587
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Forgiveness of Paycheck Protection Program loan	(363,854)	-
Depreciation	183,611	202,045
Non-cash interest	3,798	3,798
Bad debt expense	-	51
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,065,979)	(93,356)
Grants and contributions receivable	163,204	105,894
Prepaid expenses and other current assets	(34,932)	(38,153)
Accounts payable and accrued expenses	151,617	(152,090)
Refundable advances	<u>2,294,025</u>	<u>385,129</u>
Net cash provided by operating activities	<u>1,275,006</u>	<u>668,905</u>
Investing activities:		
Purchase of property and equipment	<u>(280,283)</u>	<u>-</u>
Net cash used in investing activities	<u>(280,283)</u>	<u>-</u>
Financing activities:		
Proceeds from issuance of note payable	-	969,700
Payments on note payable	(605,846)	-
Payments on bond payable	<u>(87,685)</u>	<u>(83,631)</u>
Net cash provided by (used in) financing activities	<u>(693,531)</u>	<u>886,069</u>
Net increase in cash and cash equivalents	301,192	1,554,974
Cash and cash equivalents - beginning	<u>5,699,388</u>	<u>4,144,414</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 6,000,580</u>	<u>\$ 5,699,388</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 68,222</u>	<u>\$ 75,912</u>

See accompanying notes to financial statements.

LEO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 1. ORGANIZATION

LEO Inc. (the "Agency") was incorporated in 1965 as a Massachusetts not-for-profit community action agency to provide a broad range of programs to eligible low-income residents in Lynn and its surrounding communities. The Agency provides Head Start and Early Head Start education programs for children ages birth to five, an after-school program, fuel and energy conservation assistance, and other community outreach programs that help to strengthen the region.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Agency have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation

The Agency follows the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic *Presentation of Financial Statements of Not-for-Profit Entities*. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Agency. These net assets may be used at the discretion of the Agency's 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 Agency or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor had stipulated the funds be maintained in perpetuity. As of September 30, 2021 and 2020, the Agency does not have net assets with donor restrictions that are perpetual in nature.

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Measurement of Operations

The Agency's operating revenue and expenses consist of those items attributable to the Agency's ongoing services and activities. Non-operating activities includes capital grants, contributions and expenses related to the Agency's capital campaign, forgiveness of the Paycheck Protection Program ("PPP") loan, and release of net assets from property and equipment restrictions.

LEO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Concentration of Credit Risk

Cash and cash equivalents include cash on hand, demand deposits, and highly liquid investments with original maturities of three months or less. The Agency maintains its cash in bank deposit accounts, which, at times, may exceed federal insured limits. The Agency has not experienced any losses in such accounts and management believes the Agency is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount that management expects to collect from outstanding balances. Management reviews outstanding balances and provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Recoveries of receivables previously written off are recorded as income when received. Accounts receivable balances were \$2,570,689, \$504,710, and \$411,405 as of September 30, 2021, 2020, and 2019, respectively. As of September 30, 2021 and 2020, the Agency recorded an allowance for doubtful accounts of \$2,619.

Property and Equipment

Property and equipment are recorded at cost or fair value, if received by donation. The Agency capitalizes expenditures for property and equipment in excess of \$5,000. Expenditures for major improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Depreciation of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets which are as follows:

<u>Description</u>	<u>Years</u>
Building improvements	10 - 40 years
Vehicles and equipment	5 - 10 years
Leasehold improvements	Shorter of lease term or 30 years

Construction in Progress

Property and equipment includes construction in progress on certain projects which have not yet been completed or placed in service (Note 6).

LEO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The Agency accounts for the valuation of long-lived assets in accordance with the FASB ASC Topic *Property, Plant, and Equipment*. This Topic requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. At September 30, 2021 and 2020, management has determined that long-lived assets are not impaired.

Deferred Financing Costs

The Agency has capitalized the costs associated with obtaining bond financing. Loan acquisition costs are amortized over the life of the bond and are presented as a direct reduction of the outstanding long-term debt on the accompanying statements of financial position. Amortization of deferred financing costs is reported as interest expense on the accompanying statements of activities and changes in net assets. Loan acquisition costs totaled \$75,968 at September 30, 2021 and 2020. Accumulated amortization totaled \$40,516 and \$36,718 at September 30, 2021 and 2020, respectively.

Revenue Recognition

The Agency recognizes revenue under ASC Topic 606, *Revenue from Contracts with Customers* ("Topic 606"). Revenue is measured based on the consideration specified in a contract with a customer, and excludes any amounts collected on behalf of third parties. Under Topic 606, the Agency recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. The Agency determines the transaction price based on contractually agreed upon rates, adjusted for any variable consideration, if any.

Program services are offered by the Agency throughout the course of the year. Revenues from these services are recognized over time as services are rendered.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are reported at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

LEO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (continued)

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues without donor restrictions. Contributions of cash or other assets to be used to acquire land, buildings and equipment with donor stipulations are reported as revenues with donor restrictions; the restrictions are considered to be released at the time the long-lived assets are placed in service.

Contributions of services are reported as revenues and expenses without donor restrictions at the fair value of the services received only if the services create or enhance a non-financial asset or would typically need to be purchased by the Agency if they had not been provided by individuals with those skills. Contributions of goods are reported at fair value as revenues and expenses without donor restrictions at the time the goods are received.

A portion of the Agency's revenue is derived from cost-reimbursable and/or unit-rate federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Agency has incurred expenditures or provided the related services in compliance with specific contract or grant provisions, and is included in contracts revenue on the statements of activities and changes in net assets. Amounts received prior to incurring qualifying expenditures or providing the related services are reported as refundable advances in the accompanying statements of financial position.

Contract Liabilities

Contract liabilities include program fees received prior to the services rendered. The contract amounts will be recognized as revenue when they are earned. Such advance payments are recognized as deferred revenue in the accompanying statements of activities. There were no contract liabilities at September 30, 2021 and 2020.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Directly identifiable expenses are charged to programs and supporting services. The statements of functional expenses present the natural classification detail of expense by function. Expenses related to more than one function are allocated to programs and supporting services based on actual or estimated usage. Personnel costs are allocated based on time and effort spent on each function. Occupancy costs, including depreciation, are allocated on a square footage basis.

Advertising

The Agency expenses advertising costs when they are incurred. Advertising expense was \$40,330 and \$22,525 during the years ended September 30, 2021 and 2020, respectively.

LEO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Agency is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from income taxes pursuant to Section 501(a) of the Code. The Agency is subject to federal and state income taxes on unrelated business income, if any.

The Agency accounts for uncertain tax positions in accordance with FASB ASC Topic *Income Taxes*. This Topic prescribes a recognition threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. This Topic also provides guidance on recognition, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. At September 30, 2021 and 2020, management believes that the Agency has no material uncertain tax positions.

Although the Agency is organized as a nonprofit organization, a portion of the net income generated from rental activity, if any, is considered unrelated business income as its facility located at 156 Broad Street, Lynn, Massachusetts is debt financed and partially rented to for-profit corporations. No unrelated business income tax was due as a result of this activity as of and for the years ended September 30, 2021 and 2020 (Notes 11 and 12).

Change in Method of Accounting for Federal Interest in Net Assets

On October 1, 2020, the Agency elected to change its method of accounting for certain funding received for Head Start property with federal interest from net assets with donor restrictions to net assets without donor restrictions. The new method of accounting was adopted as it is the prevalent practice in both the general non-for-profit industry in which the Agency operates and comparative to other community action agencies and organizations that receive Head Start funding. The financial statements have been adjusted to apply the new method retrospectively.

Property and equipment acquired or enhanced with grant resources are owned by the Agency for use in authorized programs. These assets were acquired with funding from the U.S Department of Health and Human Services Administration for Children and Families (ACF). ACF retains a reversionary interest in these assets and the property and equipment must be used for the purpose authorized by the Head Start Act and applicable regulations. During the year ended September 30, 2021, the Agency changed their accounting policy regarding the treatment of property acquired with federal funds that create a revisionary interest.

LEO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Method of Accounting for Federal Interest in Net Assets (continued)

The following is a summary of the change in method of accounting for the year ended September 30, 2020:

	As Originally Reported			As Adjusted		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Net assets released from property and equipment restriction	\$ 29,051	\$ (29,051)	\$ -	\$ -	\$ -	\$ -
Total non-operating activities	\$ 1,504	\$ 120,949	\$ 122,453	\$ (27,547)	\$ 150,000	\$ 122,453
Changes in net assets	\$ 49,775	\$ 205,812	\$ 255,587	\$ 20,724	\$ 234,863	\$ 255,587
Net assets - beginning	\$ 6,446,988	\$ 1,832,494	\$ 8,279,482	\$ 7,282,991	\$ 996,491	\$ 8,279,482
Net assets - ending	\$ 6,496,763	\$ 2,038,306	\$ 8,535,069	\$ 7,303,715	\$ 1,231,354	\$ 8,535,069

	Effect of Change		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restriction	Total
Net assets released from property and equipment restriction	\$ (29,051)	\$ 29,051	\$ -
Total non-operating activities	\$ (29,051)	\$ 29,051	\$ -
Changes in net assets	\$ (29,051)	\$ 29,051	\$ -
Net assets - beginning	\$ 836,003	\$ (836,003)	\$ -
Net assets - ending	\$ 806,952	\$ (806,952)	\$ -

Reclassification

Certain amounts in the 2020 financial statements have been reclassified to conform to 2021 classifications. These reclassifications do not have an effect on the prior year financial statements.

Recently Issued But Not Yet Effective Accounting Pronouncements

In-kind Contributions - In September 2020, FASB issued Accounting Standards Update ("ASU") No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"), which is intended to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. This ASU is effective for annual periods beginning after June 15, 2021, with early adoption permitted. The Agency is evaluating the effect that ASU 2020-07 will have on its financial statements and related disclosures.

LEO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued But Not Yet Effective Accounting Pronouncements (continued)

Leases - In February 2016, the FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"). This update requires all leases with a term greater than 12 months to be recognized on the statement of position through a right-of-use asset and a lease liability and enhanced disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842* and ASU No. 2018-11, *Leases: Targeted Improvements* which provided narrow amendments to clarify how to apply certain aspects of the new leases standard and options regarding transition. The standard requires either a modified retrospective transition approach with application in all comparative periods presented, or an alternative transition method, which permits the Agency to use its effective date as the date of initial application without restating the comparative period financial statements and recognizing any cumulative effect adjustment to the opening statement of financial position. In June 2020, the FASB issued ASU No. 2020-05 *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*. ASU 2020-05 amended the effective date for ASU 2016-02 and related amendments. ASU 2016-02, as amended, is effective for fiscal years beginning after December 15, 2021. The Agency is evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures.

Subsequent Events

The Agency has evaluated all events subsequent to the statement of financial position date of September 30, 2021, through the date which the financial statements were available to be issued, January 19, 2022, and has determined that there are no subsequent events that require disclosure under FASB ASC 855 *Subsequent Events*.

NOTE 3. AVAILABILITY AND LIQUIDITY

The following represents the Agency's financial assets as of September 30, 2021:

Cash and cash equivalents	\$ 6,000,580
Accounts receivable, net	2,568,070
Grants and pledges receivable, net	<u>665,817</u>
Total financial assets	9,234,467
Less net assets with donor restrictions that will not be fulfilled in one year	<u>(1,130,817)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,103,650</u>

The Agency's goal is generally to maintain readily available assets to meet three months of operating expenses. As part of management's liquidity plan, cash is maintained in checking accounts and is readily available for use. The Agency also has available a \$250,000 line of credit for use as needed (Note 8).

LEO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 4. CAPITAL CAMPAIGN

During the year ended September 30, 2019, the Agency launched a capital campaign to raise funds as part of a planned new market tax credit agreement with the goal of improving its facilities and expanding programming. The leadership of LEO, Inc. anticipates raising approximately \$11,000,000 from this campaign.

NOTE 5. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable represent unconditional gifts to be received in future periods and are discounted to their present value based on anticipated timing of payment. The discount rate on contributions receivable is 3.34% as of September 30, 2021 and 2020. Grants and contributions receivable at September 30, are as follows:

	<u>2021</u>	<u>2020</u>
Gross grants and contributions receivable	\$ 700,000	\$ 916,606
Less allowance	(15,000)	(25,000)
Less unamortized discount	<u>(19,183)</u>	<u>(62,585)</u>
Net grants and contributions receivable	<u>\$ 665,817</u>	<u>\$ 829,021</u>
Receivable in less than one year	\$ 300,000	\$ 316,606
Receivable in more than one year	<u>400,000</u>	<u>600,000</u>
Gross grants and contributions receivable	<u>\$ 700,000</u>	<u>\$ 916,606</u>

NOTE 6. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following as of September 30:

	<u>2021</u>	<u>2020</u>
Land	\$ 1,242,611	\$ 1,234,551
Buildings and improvements	5,774,931	5,724,040
Vehicles	277,693	161,626
Leasehold improvements	44,069	44,069
Equipment	87,208	11,098
Construction in progress	<u>225,251</u>	<u>196,094</u>
	7,651,763	7,371,478
Less accumulated depreciation	<u>(2,471,136)</u>	<u>(2,287,523)</u>
	<u>\$ 5,180,627</u>	<u>\$ 5,083,955</u>

At September 30, 2021 and 2020, construction in progress represents costs related to building improvements to one of the Agency's facilities. As a part of the Agency's capital campaign, the project is expected to be completed in fiscal year 2024 at an estimated cost of \$15,000,000.

LEO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 7. BOND PAYABLE

Bond payable consisted of the following on September 30:

	<u>2021</u>	<u>2020</u>
Revenue bond, series 2013, due to Massachusetts Development Finance Agency and a local bank with monthly installments of principal and interest totaling \$12,992. The note requires interest at a rate of 4.4475%. Principal and interest payments are to be made through the bond's maturity, November 22, 2023	\$ 1,465,235	\$ 1,552,920
Less deferred financing costs, net	(35,452)	(39,250)
Less current portion	<u>(91,725)</u>	<u>(87,688)</u>
Bond payable, net	<u>\$ 1,338,058</u>	<u>\$ 1,425,982</u>

The bond payable has certain financial and non-financial covenants with which the Agency must comply. The Agency was in compliance with these covenants as of September 30, 2021 and 2020.

At September 30, 2021, future minimum payments are expected as follows:

<u>Years ending September 30:</u>	<u>Amount</u>
2022	\$ 91,725
2023	95,947
2024	<u>1,277,563</u>
	<u>\$ 1,465,235</u>

NOTE 8. LINE OF CREDIT

The Agency has a \$250,000 line of credit agreement with a bank. The line of credit is secured by substantially all of the Agency's assets. Borrowings bear interest at the bank's prime lending rate (3.25% at September 30, 2021 and 2020). The note is due and payable on demand and is subject to annual renewal. As of September 30, 2021 and 2020, there was no outstanding balance on the line of credit.

NOTE 9. PAYCHECK PROTECTION PROGRAM LOAN

On April 18, 2020, the Agency received loan proceeds of \$969,700 under the PPP. The PPP, which was established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times certain average monthly payroll expenses of the qualifying business. The loan and accrued interest, or a portion thereof, may be forgiven after 24 weeks so long as the borrower uses the loan proceeds for eligible purposes including payroll, benefits, rent, mortgage interest and utilities, and maintains its payroll levels, as defined by the PPP. At least 60% of the loan proceeds must be spent on payroll costs, as defined by the PPP for the loan to be eligible for forgiveness.

LEO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 9. PAYCHECK PROTECTION PROGRAM LOAN (CONTINUED)

U.S. GAAP does not contain authoritative accounting standards for forgivable loans provided by governmental entities. Absent authoritative accounting standards, interpretative guidance issued and commonly applied by financial statement preparers allow for the selection of accounting policies amongst acceptable alternatives. Based on the facts and circumstances, the Agency has determined it most appropriate to account for the PPP loan proceeds under the debt model. Under the debt model, the Agency recognizes the proceeds received as debt, recognizes periodic interest expense in the period in which the interest accrues at the stated interest rate and defers recognition of any potential forgiveness of the loan principal or interest until the period in which the Agency has been legally released from its obligation by the lender. The Agency deemed the debt model to be the most appropriate accounting policy for this arrangement as the underlying PPP loan is a legal form of debt and there are significant contingencies outside of the control of the Agency, mainly related to the third-party approval process for forgiveness.

The Agency applied for PPP loan forgiveness in the amount of \$363,854 and received approval from the Small Business Administration ("SBA") in February 2021. The Agency recognized the forgiven portion of the loan of \$363,854 as forgiveness of debt during the year ended September 30, 2021, which is included in the accompanying statements of activities and changes in net assets. The remaining balance of \$605,846 was repaid to the SBA in February 2021 in full. If it is determined that the Agency was not eligible to receive the PPP loan or that the Agency has not adequately complied with the rules, regulations and procedures applicable to the SBA's Loan Program, the Agency could be subject to penalties and could be required to repay the amounts previously forgiven.

NOTE 10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions that are temporary in nature consisted of the following as of September 30:

	<u>2021</u>	<u>2020</u>
Purpose restrictions	\$ 118,358	\$ 143,939
Restricted for capital campaign	<u>1,130,817</u>	<u>1,087,415</u>
	<u>\$ 1,249,175</u>	<u>\$ 1,231,354</u>

NOTE 11. RELATED PARTY TRANSACTIONS

A member of the Agency's board of directors rents office space from the Agency at market rate. Rental income from this lease agreement was approximately \$24,000 per year for the years ended September 30, 2021 and 2020, respectively.

NOTE 12. LEASE AGREEMENTS

The Agency pays rents on behalf of certain consumers under its Emergency Food and Shelter Grant. Client rent expense under this grant was \$99,779 and \$29,517 for the years ended September 30, 2021 and 2020, respectively, and is included in direct program costs in the accompanying statements of functional expenses.

LEO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 12. LEASE AGREEMENTS (CONTINUED)

The Agency owns a property and rents certain commercial space to both nonprofit organizations and for profit companies. The original terms of these leases range from one to five years with monthly rent payments ranging from \$50 to \$2,675. For the years ended September 30, 2021 and 2020, rental income was \$102,440 and \$106,804, respectively. Future minimum lease payments under these agreements are approximately \$26,000 each year for the next two years.

The Agency also entered into operating leases for various office equipment. The leases in effect at September 30, 2021 and 2020, require monthly payments which range from \$105 to \$219 per month and expire in December 2025. For the years ended September 30, 2021 and 2020, equipment lease expense was \$15,013 and \$14,735, respectively. The future minimum lease payments under these agreements total \$8,628 over the next four years.

NOTE 13. RETIREMENT PLAN

The Agency maintains a 403(b) defined contribution pension plan (the "Plan") for all eligible employees of the Agency. The Plan allows employees to contribute a minimum of 1% of earned wages not to exceed the limits set by the Internal Revenue Service. The Agency matched eligible employee contributions on a 1.33:1 basis up to 6% of the employee's salary, as defined in the agreement. During the years ended September 30, 2021 and 2020, the board of directors approved matching contributions of \$201,070 and \$188,960, respectively. These amounts are included in personnel costs on the accompanying statements of functional expenses.

NOTE 14. CONCENTRATIONS

During the years ended September 30, 2021 and 2020, the Agency generated approximately 39% and 37%, respectively, of contract revenues from various Commonwealth of Massachusetts agencies. During the years ended September 30, 2021 and 2020, approximately 42% and 33%, respectively, of operating support and revenue were received from the U.S. Department of Health and Human Services (HHS). These reimbursements are subject to audit by the government agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Agency as of September 30, 2021 and 2020, or on the changes in their net assets for the year then ended.

During the years ended September 30, 2021 and 2020, approximately 94% and 49%, respectively, of the Agency's grants and net contract and other receivables are due from these government agencies.

NOTE 15. COMMITMENTS AND CONTINGENCIES

Claims and legal actions

Claims and legal actions are brought against the Agency during the normal course of business. In the opinion of management, no claims or legal actions have been asserted against the Agency which, individually or in the aggregate, will have a material effect on the accompanying financial statements.

LEO INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 15. COMMITMENTS AND CONTINGENCIES (CONTINUED)

COVID-19

In March 2020, the World Health Organization has declared COVID-19 to constitute a “Public Health Emergency of International Concern”. The outbreak and related government-mandated closures and occupancy limits caused disruptions to the Agency's operations and services. During the period of on-site closure, the Agency performed limited services using a remote model. Once mandates eased and it was safe to do so, the Agency resumed limited on-site programming under guidance provided by the state and Centers for Disease Control and Prevention. The Agency has had adequate resources to withstand disruptions in its operations with support from the city agencies with which they have contracts and with financial assistance from the PPP Program under the CARES Act. (Note 9).

SUPPLEMENTARY INFORMATION

LEO INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct Program:			
Head Start	93.600	N/A	\$ 5,081,404
COVID-19 - Head Start	93.600	N/A	<u>310,871</u>
Total direct program			<u>5,392,275</u>
Pass-through programs from:			
Commonwealth of Massachusetts - Department of Housing and Community Development:			
Low-Income Home Energy Assistance	93.568	N/A	2,183,136
COVID-19 - Low-Income Home Energy Assistance	93.568	N/A	<u>560,282</u>
			<u>2,743,418</u>
Community Services Block Grant	93.569	N/A	532,450
COVID-19 - Community Services Block Grant	93.569	N/A	<u>156,166</u>
			<u>688,616</u>
Total Commonwealth of Massachusetts - Department of Housing and Community Development			<u>3,432,034</u>
Pass-through programs from:			
Commonwealth of Massachusetts - Department of Elder Affairs - Greater Lynn Senior Services: Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers			
	93.044	N/A	<u>3,719</u>
Total Commonwealth of Massachusetts - Department of Elder Affairs - Greater Lynn Senior Services			<u>3,719</u>
CCDF Cluster:			
Pass-through programs from:			
Commonwealth of Massachusetts - Department of Early Education and Care:			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	2020FLEXPOOL 2020PRIORPORS 300010LYNNECO 3100LYNNECON 3300LYNNECON	55,241
Child Care and Development Block Grant	93.575	2020FLEXPOOL 2020PRIORPORS30 0010LYNNECO 3100LYNNECON 3300LYNNECON	<u>145,366</u>
Total CCDF cluster			<u>200,607</u>

LEO INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Temporary Assistance for Needy Families Pass-through programs from: Commonwealth of Massachusetts -Department of Early Education and Care:		2020FLEXPOOLI 2020PRIORPORS 300010LYNNECO 3100LYNNECON 3300LYNNECON	
Temporary Assistance for Needy Families	93.558		<u>178,972</u>
Total U.S. Department of Health and Human Services			<u>9,207,607</u>
U.S Department of Agriculture:			
Pass-through programs from: Commonwealth of Massachusetts - Department of Early Education and Care:			
Child and Adult Care Food Program	10.558	N/A	3,948
National School Lunch Program	10.555	N/A	137,585
Pass-through programs from: Greater Boston Food Assistance Program (Food Commodities):			
Commodity Supplemental Food Program	10.565	N/A	<u>29,594</u>
Total U.S. Department of Agriculture			<u>171,127</u>
U.S. Department of Homeland Security:			
Direct Program:			
Emergency Food and Shelter National Board Program	97.024	N/A	43,369
COVID-19 - Emergency Food and Shelter National Board Program	97.024	N/A	<u>26,280</u>
Total U.S. Department of Homeland Security			<u>69,649</u>
U.S. Department of Housing and Urban Development:			
Pass-through programs from: Lynn Housing Authority:			
Continuum of Care Program	14.267	N/A	<u>46,449</u>
U.S. Department of Energy:			
Pass-through programs from: Commonwealth of Massachusetts - Department of Housing and Community Development - Action, Inc.:			
Weatherization Assistance for Low-Income Persons	81.042	N/A	<u>23,967</u>
U.S. Department of the Treasury:			
Direct Program:			
Volunteer Income Tax Assistance (VITA) Matching Grant Program	21.009	N/A	<u>10,300</u>
Total Expenditures of Federal Awards			<u>\$ 9,529,099</u>

LEO INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2021

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards ("Schedule") includes the federal grant activity of LEO Inc. (the "Agency") under programs of the federal government for the year ended September 30, 2021 and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

The Agency did not elect to use the 10% de minimis cost rate for its Federal programs. The Agency has negotiated an indirect rate of 13.6%.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
LEO Inc.
Lynn, Massachusetts

Report on Compliance for Each Major Federal Program

We have audited LEO Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on LEO Inc.'s major federal program for the year ended September 30, 2021. LEO Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for LEO Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the LEO Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of LEO Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, LEO Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2021.

Report on Internal Control over Compliance

Management of LEO Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LEO Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LEO Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CERTIFIED PUBLIC ACCOUNTANTS

Braintree, Massachusetts
January 19, 2022

INDEPENDENT AUDITOR'S 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
LEO Inc.
Lynn, 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 LEO Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 19, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered LEO Inc.'s internal control over financial reporting ("internal control") as a basis for designing 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 LEO Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of LEO 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 LEO 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 LEO 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 the LEO Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purposes.



CERTIFIED PUBLIC ACCOUNTANTS

Braintree, Massachusetts
January 19, 2022

**LEO INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

A. SUMMARY OF AUDIT RESULTS

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditor report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None Reported |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|---------------|
| 4. Internal control over major federal programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None Reported |
| 5. Type of auditor's report issued on compliance for major federal programs | Unmodified |
| 6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a) of Uniform Guidance? | No |

- | | |
|--|-----------------------|
| 7. Identification of major federal programs: | |
| <u>Name of Federal Program or Cluster</u> | <u>CFDA Number(s)</u> |
| Head Start | 93.600 |
| 8. Dollar threshold used to distinguish between Type A programs and Type B programs: | \$750,000 |
| 9. Auditee qualifies as a low risk auditee? | Yes |

B. FINANCIAL STATEMENT FINDINGS

None

C. MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS

None

**LEO INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

A. FINANCIAL STATEMENT FINDINGS

None

B. MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS

None