

EASTER SEALS TENNESSEE, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

As of and for the Years Ended August 31, 2022 and 2021

And Report of Independent Auditor

EASTER SEALS TENNESSEE, INC. AND AFFILIATES
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EASTER SEALS TENNESSEE, INC. AND AFFILIATES
ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF

AS OF AUGUST 31, 2022

Board of Directors

Perry Moulds	Chairman
Chuck Mataya	Vice Chairman
Steve Deckard	Secretary
Jeff Bridges	Treasurer
Caryl Atwood	Board Member
Karen Blake	Board Member
Lee Molette	Board Member
Rhonda Phillippi	Board Member
Jeb Beasley	Board Member
David Beecham	Board Member
Steve Zimmerman	Board Member
Joe Cowan	Board Member
Heather Bay	Board Member
Marlese Allen	Board Member
Clancey Hopper	Board Member

Executive Staff

Timothy Ryerson	Chief Executive Officer
Andy White	Chief Business Development Officer
Catherine McKinley	Chief Compliance & Human Resources Officer
Brent Goodman	Employee Relations Partner
Katherine Simone	Chief Employment & Services Officer
Larry Bergholz	Chief Financial Officer
Madelyn Keith	Director of Accreditation & Strategy
Michael Pittman	Director of Billing & Information Tech
Jennifer Wang	Chief Services Officer

Report of Independent Auditor

To the Board of Directors
Easter Seals Tennessee, Inc. and affiliates
Nashville Tennessee

Opinion

We have audited the accompanying consolidated financial statements of Easter Seals Tennessee, Inc. (a non-profit organization) and affiliates, which comprise the consolidated statement of financial position as of August 31, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements. We have also audited the accompanying consolidated financial statements of Easter Seals Tennessee, Inc., which comprise the consolidated statement of financial position as of August 31, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year ended, and the related notes to the consolidated financial statements.

In our opinion, the 2022 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Easter Seals Tennessee, Inc. and affiliates as of August 31, 2022, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2021 consolidated financial statements present fairly, in all material respects, the financial position of Easter Seals Tennessee, Inc. as of August 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Easter Seals Tennessee, Inc. and affiliates and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Easter Seals Tennessee, Inc. and affiliates' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Easter Seals Tennessee, Inc. and affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Easter Seals Tennessee, Inc. and affiliates' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and state financial assistance is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Information

The Roster of Board of Directors and Executive Staff on page 1, which is the responsibility of management, is of a nonaccounting nature and has not been subjected to the audit procedures applied in the audit of the consolidated financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2023, on our consideration of Easter Seals Tennessee, Inc. and affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Easter Seals Tennessee, Inc. and affiliates' 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 Easter Seals Tennessee, Inc. and affiliates' internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Cherry Bekaert LLP".

Nashville, Tennessee
February 24, 2023

EASTER SEALS TENNESSEE, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2022

(With Comparative Information of Easter Seals Tennessee, Inc. as of August 31, 2021)

	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,470,236	\$ 3,998,697
Investments	2,680,400	1,053,938
Accounts receivable	2,694,594	1,578,409
Prepaid expenses and other	<u>96,382</u>	<u>82,248</u>
Total Current Assets	9,941,612	6,713,292
Property and equipment, net	1,746,457	512,083
Beneficial interest in assets at		
Community Foundation of Middle Tennessee	<u>18,300</u>	<u>18,300</u>
Total Assets	<u><u>\$ 11,706,369</u></u>	<u><u>\$ 7,243,675</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 160,191	\$ 54,932
Accrued expenses	<u>980,549</u>	<u>481,780</u>
Total Current Liabilities	<u>1,140,740</u>	<u>536,712</u>
Net Assets:		
Without Donor Restrictions:		
Undesignated	8,845,179	6,676,213
Designated for endowment	<u>17,136</u>	<u>17,136</u>
Total Net Assets Without Donor Restrictions	8,862,315	6,693,349
With Donor Restrictions	<u>1,703,314</u>	<u>13,614</u>
Total Net Assets	<u>10,565,629</u>	<u>6,706,963</u>
Total Liabilities and Net Assets	<u><u>\$ 11,706,369</u></u>	<u><u>\$ 7,243,675</u></u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

EASTER SEALS TENNESSEE, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED AUGUST 31, 2022

(With Comparative Information of Easter Seals Tennessee, Inc. for the Year Ended August 31, 2021)

	<u>2022</u>	<u>2021</u>
Change in Net Assets Without Donor Restrictions:		
Public Support and Revenue:		
Government fees and grants	\$ 11,162,734	\$ 6,419,907
Contract services	1,590,494	1,152,961
Contributions	223,024	3,104,568
Group home rent	46,298	-
Camp fees	17,355	-
Special events (loss), net of event costs of \$32,898 and \$34,023, respectively	(16,730)	53,127
Gain on sale of property and equipment	4,800	9,003
Investment (loss) income, net	(379,603)	243,355
Other revenue	11,428	114,526
Grant income on Paycheck Protection Program loan	-	1,264,327
Total Public Support and Revenue	<u>12,659,800</u>	<u>12,361,774</u>
Expenses:		
Program Services:		
Direct services	11,925,365	7,329,013
Public health education	26,511	21,099
Total Program Services	<u>11,951,876</u>	<u>7,350,112</u>
Supporting Services:		
Management and general	517,083	350,212
Fundraising	134,635	128,022
National program fee	49,888	59,176
Total Supporting Services	<u>701,606</u>	<u>537,410</u>
Total Expenses	<u>12,653,482</u>	<u>7,887,522</u>
Change in net assets from operations without donor restrictions	6,318	4,474,252
Contribution of net assets from Prospect, Inc. without donor restrictions	2,162,648	-
Contribution of net assets from Prospect, Inc. with donor restrictions	<u>1,689,700</u>	<u>-</u>
Change in net assets	3,858,666	4,474,252
Net assets, beginning of year	<u>6,706,963</u>	<u>2,232,711</u>
Net assets, end of year	<u><u>\$ 10,565,629</u></u>	<u><u>\$ 6,706,963</u></u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

EASTER SEALS TENNESSEE, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2022

	Program Services			Supporting Services				Total Expenses
	Direct Services	Public Health Education	Total	Management and General	Fundraising	National Program Fee	Total	
Salaries and related expenses	\$ 10,078,782	\$ 23,332	\$ 10,102,114	\$ 304,410	\$ 113,116	\$ -	\$ 417,526	\$ 10,519,640
Professional fees	296,143	627	296,770	87,757	1,655	-	89,412	386,182
Insurance	343,030	1,026	344,056	8,745	2,748	-	11,493	355,549
Supplies	300,406	-	300,406	8,913	555	-	9,468	309,874
Travel and transportation	275,135	596	275,731	5,499	410	-	5,909	281,640
Depreciation	256,177	544	256,721	14,111	6,047	-	20,158	276,879
Occupancy	143,602	-	143,602	50,289	-	-	50,289	193,891
Telephone	82,696	200	82,896	3,319	395	-	3,714	86,610
National program fee	-	-	-	-	-	49,888	49,888	49,888
Utilities	34,318	61	34,379	8,431	-	-	8,431	42,810
Conferences, conventions, and meetings	34,461	34	34,495	3,750	454	-	4,204	38,699
Specific assistance	26,840	-	26,840	-	-	-	-	26,840
Rental and maintenance of equipment	22,514	68	22,582	2,039	1,633	-	3,672	26,254
Membership and support payments	8,706	-	8,706	7,879	1,721	-	9,600	18,306
Building and grounds maintenance	13,014	11	13,025	-	-	-	-	13,025
Miscellaneous	1,369	-	1,369	10,599	-	-	10,599	11,968
Advertising	6,879	9	6,888	-	-	-	-	6,888
Printing and publications	409	1	410	128	4,833	-	4,961	5,371
Postage and shipping	884	2	886	1,214	1,068	-	2,282	3,168
Total Expenses	<u>\$ 11,925,365</u>	<u>\$ 26,511</u>	<u>\$ 11,951,876</u>	<u>\$ 517,083</u>	<u>\$ 134,635</u>	<u>\$ 49,888</u>	<u>\$ 701,606</u>	<u>\$ 12,653,482</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

EASTER SEALS TENNESSEE, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2021

	Program Services			Supporting Services				Total Expenses
	Direct Services	Public Health Education	Total	Management and General	Fundraising	National Program Fee	Total	
Salaries and related expenses	\$ 6,173,896	\$ 18,577	\$ 6,192,473	\$ 226,719	\$ 95,637	\$ -	\$ 322,356	\$ 6,514,829
Insurance	247,822	746	248,568	4,922	2,129	-	7,051	255,619
Supplies	230,469	-	230,469	4,962	15,094	-	20,056	250,525
Professional fees	201,515	606	202,121	41,743	1,601	-	43,344	245,465
Depreciation	165,759	499	166,258	12,931	5,542	-	18,473	184,731
Travel and transportation	110,871	334	111,205	1,330	51	-	1,381	112,586
Occupancy	71,026	-	71,026	36,963	-	-	36,963	107,989
Telephone	63,005	190	63,195	2,147	411	-	2,558	65,753
National program fee	-	-	-	-	-	59,176	59,176	59,176
Rental and maintenance of equipment	21,263	64	21,327	1,293	1,054	-	2,347	23,674
Utilities	14,257	43	14,300	5,049	-	-	5,049	19,349
Membership and support payments	16,084	-	16,084	1,080	2,115	-	3,195	19,279
Interest	-	-	-	7,027	-	-	7,027	7,027
Conferences, conventions, and meetings	6,009	18	6,027	625	-	-	625	6,652
Building and grounds maintenance	4,555	14	4,569	-	-	-	-	4,569
Postage and shipping	879	3	882	1,000	2,038	-	3,038	3,920
Printing and publications	85	-	85	296	2,350	-	2,646	2,731
Miscellaneous	-	-	-	2,125	-	-	2,125	2,125
Advertising	1,518	5	1,523	-	-	-	-	1,523
Total Expenses	<u>\$ 7,329,013</u>	<u>\$ 21,099</u>	<u>\$ 7,350,112</u>	<u>\$ 350,212</u>	<u>\$ 128,022</u>	<u>\$ 59,176</u>	<u>\$ 537,410</u>	<u>\$ 7,887,522</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

EASTER SEALS TENNESSEE, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED AUGUST 31, 2022

(With Comparative Information of Easter Seals Tennessee, Inc. for the Year Ended August 31, 2021)

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 3,858,666	\$ 4,474,252
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Contribution of net assets from Prospect, Inc.	(3,852,348)	-
Depreciation	276,879	184,731
Gain on disposal of property and equipment	-	(9,003)
Realized and unrealized loss (gain) on investments	388,676	(224,970)
Changes in operating assets and liabilities:		
Accounts receivable	(573,427)	(561,457)
Prepaid expenses and other	59,018	(1,638)
Accounts payable	88,332	42,030
Accrued expenses	168,532	99,599
Deferred grant revenue	-	(1,257,300)
Net cash flows from operating activities	<u>414,328</u>	<u>2,746,244</u>
Cash flows from investing activities:		
Cash received from Prospect, Inc.	2,210,625	-
Net proceeds from disposal of property and equipment	-	9,003
Purchases of property and equipment	(138,276)	(270,047)
Proceeds from sale and maturation of investments	868,001	332,971
Purchase of investments	(2,883,139)	(638,994)
Net cash flows from investing activities	<u>57,211</u>	<u>(567,067)</u>
Cash flows from financing activities:		
Payments on notes payable	-	(18,404)
Net cash flows from financing activities	<u>-</u>	<u>(18,404)</u>
Change in cash and cash equivalents	471,539	2,160,773
Cash and cash equivalents, beginning of year	3,998,697	1,837,924
Cash and cash equivalents, end of year	<u>\$ 4,470,236</u>	<u>\$ 3,998,697</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

EASTER SEALS TENNESSEE, INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2022

(With Comparative Information of Easter Seals Tennessee, Inc. for the Year Ended August 31, 2021)

Note 1—Nature of activities and significant accounting policies

Easter Seals Tennessee, Inc. (“Easter Seals”) is a not-for-profit entity organized in Nashville, Tennessee in 1923. Easter Seals provides programs and services to children and adults with disabilities throughout Tennessee.

Effective March 1, 2022, Prospect, Inc., a Tennessee not-for-profit corporation headquartered in Lebanon, Tennessee, merged with and into Easter Seals. Easter Seals was the surviving corporation. As part of the merger agreement, Easter Seals assumed control of Prospect Housing Properties, Inc. and Prospect Housing Dekalb, Inc.

Prospect Housing Properties, Inc. (“PHP”) was organized in 2006 as a Tennessee not-for-profit corporation and is headquartered in Lebanon, Tennessee. PHP provides group home living facilities to people with developmental disabilities in Wilson County.

Prospect Housing Dekalb, Inc. (“PHD”) was organized in 2007 as a Tennessee not-for-profit corporation and is headquartered in Lebanon, Tennessee. PHD provides group home living facilities to people with developmental disabilities in Dekalb County.

Principles of Consolidation – The consolidated statements as of and for the year ended August 31, 2022 include the accounts and activities of Easter Seals, PHP, and PHD referred to collectively herein as the “Organization”. All significant intercompany accounts and transactions have been eliminated.

Basis of 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”). Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the net assets without donor restrictions class since the use of restricted contributions in accordance with the donors’ stipulations results in the release of the restriction. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors are included in this classification. 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.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Organization considers all cash funds, cash bank accounts, and highly liquid debt instruments with an original maturity when purchased of three months or less to be cash and cash equivalents.

Investments and Fair Value Measurements – Investments in money market accounts, exchange traded funds, and equity securities with readily determinable fair values and all investments in debt securities are reported at fair value, with realized and unrealized gains and losses recognized currently in the consolidated statements of activities.

EASTER SEALS TENNESSEE, INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2022

(With Comparative Information of Easter Seals Tennessee, Inc. for the Year Ended August 31, 2021)

Note 1—Nature of activities and significant accounting policies (continued)

The Organization has an established process for determining fair value. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models or processes that use primarily market-based or independently-sourced market data and third party information. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. U.S. GAAP has a three-level valuation hierarchy for fair value measurements. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are explained as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. In general, fair value is based on quoted market prices, where available. If such quoted market prices are not available, fair value is based on internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and valuation adjustments are applied consistently over time. The Organization's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates and, therefore, estimates of fair value after the statements of financial position date may differ significantly from the amounts presented herein.

Fair values for investments in money market accounts are valued at the net asset value of shares held by the Organization at year-end. Fair values for investments in exchange-traded funds and equity securities are valued at the closing price reported on the active market on which the securities are traded. Fair values for investments in debt securities are valued, whenever possible, at the closing price reported in the active market in which the security is traded. Securities, for which no sale was reported on the last business day of the year, are valued by evaluated pricing models using available information, as applicable, through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing.

EASTER SEALS TENNESSEE, INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2022

(With Comparative Information of Easter Seals Tennessee, Inc. for the Year Ended August 31, 2021)

Note 1—Nature of activities and significant accounting policies (continued)

Accounts Receivable – Accounts receivable represent amounts that have been billed under contracts but not collected as of the date of the financial statements. Accounts receivable represent amounts owed by state agencies, insurance companies, and local organizations. Accounts receivable are stated at the amount management expects to be collected from the outstanding balance. At August 31, 2022 and 2021, management has determined, based on historical experience, that all amounts are fully collectible. Accordingly, no allowance for doubtful accounts has been provided.

Property and Equipment – Easter Seals generally capitalizes an asset if its life is estimated to be one year or greater and the cost is \$1,000 or greater. Property and equipment is recorded at cost when purchased or at estimated fair value as of the date contributed. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets.

Functional Allocation of Expenses – The costs of providing program services and supporting services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon estimates by management. While most costs have been directly assigned to a functional category, certain personnel costs have been allocated to program and management and general based on time and effort estimates made by management.

Income Taxes – Easter Seals is exempt from federal and state income taxes under section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, no provision for income taxes has been made.

The Organization follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) guidance that clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that 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.

Contributions – Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restrictions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Revenue – See Note 2 for additional information related to revenue recognition.

Donated Services – The services of volunteer workers are not assigned a value as such services do not generally meet the criteria for recognition. However, the Organization uses the services of volunteers in carrying out its program efforts. The donations of professional services are recorded at fair value as gifts-in-kind, if a measurable basis of the value exists. There were no such donations in fiscal years 2022 or 2021.

EASTER SEALS TENNESSEE, INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2022

(With Comparative Information of Easter Seals Tennessee, Inc. for the Year Ended August 31, 2021)

Note 1—Nature of activities and significant accounting policies (continued)

Subsequent Events – Easter Seals evaluated subsequent events through February 24, 2023, when these consolidated financial statements were available to be issued.

Adoption of New Accounting Pronouncement – In September 2020, FASB issued Accounting Standards Update (“ASU”) 2020-07, *Presentation and Disclosures by Not-for-Entities for Contributed Nonfinancial Assets*. This ASU requires not-for-profit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. In addition, for each category of contributed nonfinancial assets recognized, certain additional disclosures are required. This standard is effective for the year ending August 31, 2022 and had an immaterial effect on the Organization’s consolidated financial statements upon adoption.

Forthcoming Accounting Pronouncements – In February 2016, FASB issued ASU 2016-02, *Leases*. This guidance introduces a lessee model that brings substantially all leases on the statements of financial position. This guidance is effective for the year ending August 31, 2023. The Organization is evaluating the impact this guidance may have on its consolidated financial statements.

Note 2—Revenue

The Organization follows FASB ASU 2014-09, *Revenue from Contracts with Customers* (“ASC 606”). Under ASC 606, revenue is recognized when the Organization transfers the promised goods or services to a customer in an amount that reflects consideration that is expected to be received for those goods and services.

The Organization recognized revenue for services in accordance with the following five steps outlined in ASC 606:

- Identification of the contract or contracts with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction prices
- Allocation of the transaction prices to the performance obligations in the contract
- Recognition of revenue when or as the Organization satisfies a performance obligation

The Organization has analyzed the provisions of ASC 606 and has concluded the following:

Performance Obligations – A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under ASC 606. The transaction price is allocated to each distinct performance obligation and is recognized as revenue when, or as, each performance obligation is satisfied. The Organization’s revenue within the scope of ASC 606 consists of revenue from services to help those with disabilities find employment and services for elderly or those with physical or mental disabilities stay in their home. Additionally, the Organization has contracted to provide services to rest areas through the state of Tennessee with an emphasis on staffing using those with disabilities. The contract performance obligation for these activities is generally satisfied at the time the services are provided.

Accounts Receivable – Accounts receivable relating to employment and in-home assistance services and rest area services totaled \$2,508,661 and \$1,527,339 at August 31, 2022 and 2021, respectively.

EASTER SEALS TENNESSEE, INC. AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2022

(With Comparative Information of Easter Seals Tennessee, Inc. for the Year Ended August 31, 2021)

Note 2—Revenue (continued)

Disaggregation of Revenue – The table below depicts the disaggregation of revenue by service for the year ended August 31:

	2022	2021
Adult services	\$ 9,554,009	\$ 5,236,931
Employment and training	2,720,258	2,245,061
Other	478,961	90,876
	<u>\$ 12,753,228</u>	<u>\$ 7,572,868</u>

Note 3—Liquidity and availability of resources

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing program service activities as well as the conduct of the services undertaken to support those activities to be general expenditures. Financial assets available for general expenditures, that is, without donor restrictions limiting their use within one year of the statement of financial position comprise the following at August 31:

	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	\$ 4,470,236	\$ 3,998,697
Investments	2,680,400	1,053,938
Accounts receivable	2,694,594	1,578,409
Beneficial interest in assets at Community Foundation of Middle Tennessee	18,300	18,300
Total financial assets	<u>9,863,530</u>	<u>6,649,344</u>
Less amounts not available to be used for general expenditures within one year:		
Board designated	17,136	17,136
Purpose restrictions	1,702,150	12,450
Amount held in perpetuity	1,164	1,164
Financial assets not available to be used within one year	<u>1,720,450</u>	<u>30,750</u>
Financial assets available to meet general expenditures within one year	<u>\$ 8,143,080</u>	<u>\$ 6,618,594</u>

EASTER SEALS TENNESSEE, INC. AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2022

(With Comparative Information of Easter Seals Tennessee, Inc. for the Year Ended August 31, 2021)

Note 4—Investments

The following table sets forth the Organization's major categories of assets and liabilities measured at fair value on a recurring basis, by level within the fair value hierarchy, as of August 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money market accounts	\$ 34,563	\$ -	\$ -	\$ 34,563
Exchange-traded funds:				
Foreign large blend	36,986	-	-	36,986
Technology	49,007	-	-	49,007
Healthcare	37,303	-	-	37,303
Communications	23,601	-	-	23,601
Real estate	48,399	-	-	48,399
Consumer cyclical	13,218	-	-	13,218
Government	76,120	-	-	76,120
Small blend	5,160	-	-	5,160
Diversified Pacific/Asia	31,823	-	-	31,823
Equity energy	62,370	-	-	62,370
Large blend	11,519	-	-	11,519
Intermediate-term bond	75,998	-	-	75,998
Debt securities:				
Baa	-	10,364	-	10,364
Equity securities:				
Financial services	130,807	-	-	130,807
Mutual Funds	1,327,825			1,327,825
Bond funds	183,310			183,310
Technology	84,205	-	-	84,205
Healthcare	95,090	-	-	95,090
Industrials	75,755	-	-	75,755
Consumer defensive	61,421	-	-	61,421
Consumer cyclical	52,156	-	-	52,156
Communication services	31,061	-	-	31,061
Real estate	55,017	-	-	55,017
Utilities	33,947	-	-	33,947
Basic materials	10,972	-	-	10,972
Energy	20,491	-	-	20,491
Oil and gas industry	1,912	-	-	1,912
Total investments	<u>\$ 2,670,036</u>	<u>\$ 10,364</u>	<u>\$ -</u>	<u>\$ 2,680,400</u>

EASTER SEALS TENNESSEE, INC. AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2022

(With Comparative Information of Easter Seals Tennessee, Inc. for the Year Ended August 31, 2021)

Note 4—Investments (continued)

The following table sets forth the Organization's major categories of assets and liabilities measured at fair value on a recurring basis, by level within the fair value hierarchy, as of August 31, 2021:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	\$ 32,365	\$ -	\$ -	\$ 32,365
Exchange-traded funds:				
Foreign large blend	44,852	-	-	44,852
Technology	42,256	-	-	42,256
Healthcare	25,014	-	-	25,014
Communications	25,087	-	-	25,087
Financial services	34,037	-	-	34,037
Consumer cyclical	24,610	-	-	24,610
Industrials	8,152	-	-	8,152
Small blend	12,808	-	-	12,808
Diversified Pacific/Asia	18,888	-	-	18,888
Pacific/Asia Ex-Japan stk	12,958	-	-	12,958
Equity energy	7,986	-	-	7,986
Large blend	1,355	-	-	1,355
Debt securities:				
Baa	-	6,783	-	6,783
Not rated	-	9,509	-	9,509
Equity securities:				
Financial services	154,004	-	-	154,004
Technology	125,950	-	-	125,950
Healthcare	89,177	-	-	89,177
Industrials	70,643	-	-	70,643
Consumer defensive	63,973	-	-	63,973
Consumer cyclical	60,786	-	-	60,786
Communication services	62,947	-	-	62,947
Real estate	52,378	-	-	52,378
Utilities	40,082	-	-	40,082
Basic materials	13,436	-	-	13,436
Energy	13,084	-	-	13,084
Oil and gas industry	818	-	-	818
Total investments	<u>\$ 1,037,646</u>	<u>\$ 16,292</u>	<u>\$ -</u>	<u>\$ 1,053,938</u>

EASTER SEALS TENNESSEE, INC. AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2022

(With Comparative Information of Easter Seals Tennessee, Inc. for the Year Ended August 31, 2021)

Note 4—Investments (continued)

Investment (loss) income was as follows for the years ended August 31:

	2022	2021
Interest and dividend income	\$ 9,073	\$ 18,385
Realized and unrealized (loss) gain on investments	(388,676)	224,970
Investment (loss) income, net	<u>\$ (379,603)</u>	<u>\$ 243,355</u>

Note 5—Accounts receivable

Accounts receivable consists of the following at August 31:

	2022	2021
Accounts receivable	\$ 842,244	\$ 558,778
Fees receivable from state agencies	1,852,350	1,019,631
Total accounts receivable	<u>\$ 2,694,594</u>	<u>\$ 1,578,409</u>

Note 6—Property and equipment

Property and equipment consists of the following at August 31:

	2022	2021
Land	\$ 191,284	\$ -
Buildings	1,018,680	-
Leasehold improvements	128,724	38,444
Vehicles	1,483,160	1,293,934
Equipment	270,181	248,400
	3,092,029	1,580,778
Less accumulated depreciation	<u>(1,345,572)</u>	<u>(1,068,695)</u>
Property and equipment, net	<u>\$ 1,746,457</u>	<u>\$ 512,083</u>

Depreciation expense totaled \$276,879 and \$184,731 for the years ended August 31, 2022 and 2021, respectively.

Note 7—Beneficial interest in assets at Community Foundation of Middle Tennessee

The Community Foundation of Middle Tennessee (the “Community Foundation”) maintains agency investments on behalf of Easter Seals. Under the terms of the agreement, the Community Foundation has variance power and is the legal owner of the investments. However, Easter Seals is the beneficiary of the fund and receives distributions of income, subject to the Community Foundation’s spending policy. The investments resulted from unrestricted amounts transferred by Easter Seals to the Community Foundation, in addition to other donor contributions and earnings. Easter Seals has recorded the related asset beneficial interest in assets at Community Foundation of Middle Tennessee in the accompanying consolidated statements of financial position totaling \$18,300 at August 31, 2022 and 2021.

EASTER SEALS TENNESSEE, INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2022

(With Comparative Information of Easter Seals Tennessee, Inc. for the Year Ended August 31, 2021)

Note 8—Deferred grant revenue

Easter Seals received a Paycheck Protection Program (“PPP”) loan in the amount of \$1,267,300. The PPP loan is granted by the Small Business Administration (“SBA”) under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). PPP loans are considered conditional contributions under ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. The loan must be repaid if Easter Seals does not overcome certain barriers within the CARES Act. The barriers under the program include the requirement to maintain employee headcount, spend up to 60% of the loan proceeds on certain payroll and employee benefits, and restricts other loan proceeds to be used for other qualifying expenses such as mortgage interest, rent, and utilities. Easter Seals had deferred recognition of grant revenue for the year ended August 31, 2020, because the conditions for forgiveness had not yet been substantially met. In November 2020, the PPP loan of \$1,267,300, reduced by the amount of the Economic Injury Disaster Loan of \$10,000, plus accrued interest of \$7,027, was fully forgiven by the SBA and was recognized within the consolidated statement of activities for the year ended August 31, 2021.

Note 9—Net assets with donor restrictions

Net assets with donor restrictions consist of the following at August 31:

	2022	2021
Housing for individuals with disabilities	\$ 1,689,700	\$ -
Camp fund	12,450	12,450
Donor restricted endowment	1,164	1,164
	<u>\$ 1,703,314</u>	<u>\$ 13,614</u>

Note 10—Concentration

The Organization maintains its cash in bank accounts that at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Deposits are insured by the Federal Deposit Insurance Corporation up to statutory limits. Management believes the Organization is not exposed to any significant credit risk regarding cash balances.

The Organization receives a substantial amount of its support from governmental grants and contracts. During fiscal years 2022 and 2021, The Organization received approximately 88% and 52%, respectively, of its support and revenue from government grants and contracts. A significant reduction in the level of this support, if this were to occur, could have an adverse impact on the Organization’s programs and services. At August 31, 2022 and 2021, the Organization had \$1,852,350 and \$1,019,631, respectively, due in fees receivable from government entities.

A significant amount of the support and revenue included in the accompanying consolidated financial statements was given from one donor during the year ended August 31, 2021. The contribution accounted for approximately 24% of Easter Seals’ total support and revenues for fiscal 2021.

EASTER SEALS TENNESSEE, INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2022

(With Comparative Information of Easter Seals Tennessee, Inc. for the Year Ended August 31, 2021)

Note 11—Employee benefit plan

During 2003, Easter Seals implemented a defined contribution retirement plan for the benefit of all employees. Employees are allowed to make contributions on a pre-tax basis. The plan provides for Easter Seals to make a discretionary contribution to the plan. Total employer contributions for the years ended August 31, 2022 and 2021 were \$3,088 and \$4,192, respectively.

The Prospect, Inc. 403(b) plan, initiated on July 1, 2008, provides for a match of 50% of the employee contribution, up to a maximum employee contribution of 6% of employee pay. This was amended on October 21, 2011 to which Prospect matches 25% of the employee contribution, up to a maximum employee contribution of 12% of the employee pay. Total contributions to the plan for the six months ended August 31, 2022 amounted to \$9,154.

Note 12—Lease commitments

The Organization leases certain buildings and equipment under noncancelable lease agreements, all of which are considered operating leases. Minimum payments for these lease commitments are as follows:

Year Ending August, 31,

2023	\$	122,490
2024		120,387
2025		67,140
2026		67,140
2027		50,355
	\$	<u>427,512</u>

Rent expense under all operating leases amounted to \$200,000 and \$122,075 for the years ended August 31, 2022 and 2021, respectively.

Note 13—Contingencies

The Organization is subject to various claims and legal actions which arise in the ordinary course of business. The Organization has professional liability insurance to protect against such claims or legal actions on a claims-made basis. In the opinion of management, the ultimate resolution of any claims will be adequately covered by the insurance and will not have a material adverse effect on The Organization's financial position or results of operations.

Note 14—HUD Capital Advance

PHP and PHD are being financed by HUD Capital Advance Program mortgage notes.

The PHP Note closed on May 29, 2008 in the amount of \$950,500, amended to \$1,000,500 payable to the Secretary of HUD. The Note bears no interest and repayment is not required so long as the housing remains available for very low-income disabled persons in accordance with regulatory agreements and regulations. The PHD Note closed on September 29, 2008 in the amount of \$689,200 payable to the Secretary of HUD. The note bears no interest and repayment is not required so long as the housing remains available for very low-income disabled persons in accordance with regulatory agreements and regulations.

EASTER SEALS TENNESSEE, INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2022

(With Comparative Information of Easter Seals Tennessee, Inc. for the Year Ended August 31, 2021)

Note 14—HUD Capital Advance (continued)

The Notes may not be prepaid prior to the maturity date without the prior written approval of HUD. Provided that (1) housing has remained available for occupancy by eligible persons until the maturity date of the Note and (2) the Note has not otherwise become due and payable by reason of default under the note, mortgage or regulatory agreement or regulations, the Notes will be considered to be paid in full and discharged on June 1, 2049 and October 1, 2049, respectively. If the Notes are considered in default under the terms of the Notes, mortgages, the regulatory agreements or the regulations, at the option of the holder of the Note, the entire principal shall become due and payable without notice. In addition, interest at a rate equal to 4.75% and 5.25%, respectively, per annum shall be payable on demand with respect to the payment of principal. Interest expense will only be recognized if it becomes payable.

Management believes that the possibility that repayment will occur is remote and treatment of the Notes as a contribution is appropriate. Accordingly, management has recorded the Notes as a contribution with donor restrictions related to the acquisition of a long-lived asset.

Note 15—Merger of Easter Seals Tennessee, Inc. and Prospect, Inc.

Effective March 1, 2022, Prospect, Inc. merged with Easter Seals with Easter Seals being the surviving party. The net assets of Prospect, Inc. were contributed to Easter Seals. Net assets were contributed by Prospect as follows:

Assets transferred:

Cash and cash equivalents	\$ 2,210,625
Accounts receivable	542,758
Prepaid expenses and other	73,152
Property and equipment, net	1,372,977
	<u>4,199,512</u>

Liabilities assumed:

Accounts payable	16,927
Accrued expenses	330,237
	<u>347,164</u>

Net assets contributed to Easter Seals:

Without donor restrictions	2,162,648
With donor restrictions	1,689,700
	<u>\$ 3,852,348</u>

SUPPLEMENTARY INFORMATION

EASTER SEALS TENNESSEE, INC. AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE

YEAR ENDED AUGUST 31, 2022

Grantor	Program Name	Assistance Listing Number	Contract Number	Passed Through to Subrecipients	Expenditures
Federal Financial Assistance:					
U.S. Department of Education Passed Through:					
State of Tennessee Dept. of Intellectual and Developmental Disabilities	Infants and Toddlers with Disabilities	84.181A	69640	\$ -	\$ 54,016
Total Assistance Listing No. 84.181A				-	54,016
Total U.S. Department of Education				-	54,016
Total Federal Awards				-	54,016
State Financial Assistance:					
State of Tennessee Dept. of Intellectual and Developmental Disabilities	Infants and Toddlers with Disabilities	84.181A	69640	-	163,314
Total State of Tennessee Department of Transportation				-	163,314
State of Tennessee Department of Health	Traumatic Brain Injury Program	N/A	GR-22-68703-00	-	10,800
Total State of Tennessee Department of Health				-	10,800
Total State Financial Assistance				-	174,114
Total Federal Awards and State Financial Assistance				\$ -	\$ 228,130

EASTER SEALS TENNESSEE, INC. AND AFFILIATES
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE

YEAR ENDED AUGUST 31, 2022

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal awards and state financial assistance (the "Schedule") summarizes the expenditures of Easter Seals Tennessee, Inc. and affiliates under programs of the federal and state government for the year ended August 31, 2022. The Schedule is presented using the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the State of Tennessee Audit Manual for Auditing, Accounting, and Reporting for Local Government Units and Other Organizations.

The Schedule does not include any financial information of Prospect Housing Properties, Inc. ("PHP") and Prospect Housing Dekalb, Inc. ("PHD"). PHP and PHD have their own audit performed in accordance with the Uniform Guidance for the year ended June 30, 2022.

Note 2—Summary of significant accounting policies

Easter Seals Tennessee, Inc. expended indirect costs using a multiple allocation base method and did not elect to use the 10% de minimus cost rate allowed under the Uniform Guidance.

Note 3—Subrecipients

The Organization did not have expenditures to subrecipients during the fiscal year.

Note 4—Contingencies

These programs are subject to financial and compliance audits by grantor agencies. The amount, if any, of expenditures that may be disallowed by the grantor agencies cannot be determined at this time, although the Organization expects such amounts, if any, to be immaterial.

**Report of Independent Auditor 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
Easter Seals Tennessee, Inc. and affiliates
Nashville, Tennessee

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 Easter Seals Tennessee, Inc. and affiliates (the "Organization") (a nonprofit organization), which comprise the consolidated statement of financial position as of August 31, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and we have issued our report thereon dated February 24, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described below as item 2022-001, that we consider to be a material weakness.

Finding 2022-001 – Material Weakness in Internal Controls over Financial Reporting and Close

Criteria: The Organization is responsible for establishing controls and procedures to ensure internal controls are adequate and being properly implemented.

Condition: During the audit, the independent auditor proposed material adjustments related to accounts receivable, support and revenue, and expenses.

Cause: The Organization experienced a significant turnover in its accounting staff and completed a merger with another nonprofit organization.

Effect: Audit adjustments were required to present the Organization's consolidated financial statements in accordance with Generally Accepted Accounting Principles.

Recommendation: The Organization should re-evaluate its internal controls regarding all transaction types including bank reconciliations, cash receipts, and cash disbursements and ensure such be followed in all circumstances.

Management's Response: Management agrees with the finding.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated 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*.

Easter Seals Tennessee, Inc.'s Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Nashville, Tennessee
February 24, 2023

EASTER SEALS TENNESSEE, INC. AND AFFILIATES
SCHEDULE OF PRIOR YEAR FINDINGS

YEAR ENDED AUGUST 31, 2022

There were no prior year findings reported.