

EASTER SEALS TENNESSEE, INC.

FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2021 and 2020

And Report of Independent Auditor

EASTER SEALS TENNESSEE, INC.
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EASTER SEALS TENNESSEE, INC.

ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF

AS OF AUGUST 31, 2021

Board of Directors

Perry Moulds
Chuck Mataya
Steve Deckard
Jeff Bridges
Caryl Atwood
Karen Blake
Lee Molette
Rhonda Phillippi
Jeb Beasley
David Beecham
Steve Zimmerman

Chairman
Vice Chairman
Secretary
Treasurer
Board Member
Board Member
Board Member
Board Member
Board Member
Board Member
Board Member

Executive Staff

Tim Ryerson
Susan Brown
Cathy Breland
Audria Frattini
Brent Goodman
Brandy Hudson
Asia Means
Jennifer Wang
Brian Williams

President and CEO
Vice President and CFO
Director of Development
Strategic Initiatives Officer
Employee Relations Partner
Chief Services Officer – West TN
Director of Compliance
Chief Services Officer – Middle TN
Chief Business Development Officer

Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of Easter Seals Tennessee, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2021 and 2020, and the related statements of activities, 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 Easter Seals Tennessee, Inc. as of August 31, 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

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 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 January 19, 2022, on our consideration of the Easter Seals Tennessee, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Easter Seals Tennessee, Inc.'s internal control over financial reporting and compliance.

Cheryl Bekant LLP

Nashville, Tennessee
January 19, 2022

EASTER SEALS TENNESSEE, INC.
STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2021 AND 2020

	2021	2020
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,998,697	\$ 1,837,924
Investments	1,053,938	522,945
Accounts receivable	1,578,409	1,016,952
Prepaid expenses and other	82,248	80,610
Total Current Assets	6,713,292	3,458,431
Property and equipment, net	512,083	426,767
Beneficial interest in assets at Community Foundation of Middle Tennessee	18,300	18,300
Total Assets	\$ 7,243,675	\$ 3,903,498
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 54,932	\$ 12,902
Accrued expenses	481,780	382,181
Deferred grant revenue	-	1,267,300
Notes payable, current	-	8,404
Total Current Liabilities	536,712	1,670,787
Net Assets:		
Without Donor Restrictions:		
Undesignated	6,676,213	2,201,961
Designated for endowment	17,136	17,136
Total Net Assets Without Donor Restrictions	6,693,349	2,219,097
With Donor Restrictions	13,614	13,614
Total Net Assets	6,706,963	2,232,711
Total Liabilities and Net Assets	\$ 7,243,675	\$ 3,903,498

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

EASTER SEALS TENNESSEE, INC.
STATEMENTS OF ACTIVITIES

YEARS ENDED AUGUST 31, 2021 AND 2020

	2021	2020
Change in Net Assets Without Donor Restrictions:		
Public Support and Revenue:		
Government fees and grants	\$ 6,419,907	\$ 6,367,480
Contract services	1,152,961	1,162,283
Contributions	3,104,568	352,196
Camp fees	-	11,964
Special events, net of event costs of \$34,023 and \$670, respectively	53,127	16,830
Gain on sale of property and equipment	9,003	300
Investment income, net	243,355	29,813
Other revenue	114,526	12,000
Grant income on Paycheck Protection Program loan	1,264,327	-
Total Public Support and Revenue	<u>12,361,774</u>	<u>7,952,866</u>
Expenses:		
Program Services:		
Direct services	7,329,013	7,252,872
Public health education	21,099	20,767
Total Program Services	<u>7,350,112</u>	<u>7,273,639</u>
Supporting Services:		
Management and general	350,212	362,487
Fundraising	128,022	107,465
National program fee	59,176	56,127
Total Supporting Services	<u>537,410</u>	<u>526,079</u>
Total Expenses	<u>7,887,522</u>	<u>7,799,718</u>
Change in net assets without donor restrictions	4,474,252	153,148
Net assets, beginning of year	2,232,711	2,079,563
Net assets, end of year	<u>\$ 6,706,963</u>	<u>\$ 2,232,711</u>

EASTER SEALS TENNESSEE, INC.
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 financial statements are an integral part of these statements.

EASTER SEALS TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2020

	Program Services			Supporting Services				Total Expenses
	Direct Services	Public Health Education	Total	Management and General	Fundraising	National Program Fee	Total	
Salaries and related expenses	\$ 6,110,567	\$ 18,387	\$ 6,128,954	\$ 225,556	\$ 88,279	\$ -	\$ 313,835	\$ 6,442,789
Supplies	260,928	-	260,928	5,100	434	-	5,534	266,462
Professional fees	179,018	539	179,557	43,566	1,733	-	45,299	224,856
Insurance	217,014	653	217,667	4,465	1,942	-	6,407	224,074
Depreciation	155,138	467	155,605	12,103	5,187	-	17,290	172,895
Occupancy	77,193	-	77,193	55,630	-	-	55,630	132,823
Travel and transportation	125,532	378	125,910	1,993	151	-	2,144	128,054
Telephone	69,242	208	69,450	2,446	542	-	2,988	72,438
National program fee	-	-	-	-	-	56,127	56,127	56,127
Rental and maintenance of equipment	16,901	51	16,952	1,279	1,040	-	2,319	19,271
Utilities	12,892	39	12,931	4,967	-	-	4,967	17,898
Membership and support payments	12,650	-	12,650	1,391	2,395	-	3,786	16,436
Conferences, conventions, and meetings	9,311	28	9,339	1,182	208	-	1,390	10,729
Printing and publications	649	2	651	253	3,643	-	3,896	4,547
Postage and shipping	680	2	682	1,203	1,911	-	3,114	3,796
Building and grounds maintenance	3,109	9	3,118	-	-	-	-	3,118
Miscellaneous	258	-	258	1,353	-	-	1,353	1,611
Advertising	1,207	4	1,211	-	-	-	-	1,211
Interest	583	-	583	-	-	-	-	583
Total Expenses	<u>\$ 7,252,872</u>	<u>\$ 20,767</u>	<u>\$ 7,273,639</u>	<u>\$ 362,487</u>	<u>\$ 107,465</u>	<u>\$ 56,127</u>	<u>\$ 526,079</u>	<u>\$ 7,799,718</u>

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

EASTER SEALS TENNESSEE, INC.
STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2021 AND 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 4,474,252	\$ 153,148
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	184,731	172,895
Gain on disposal of property and equipment	(9,003)	(300)
Realized and unrealized gain on investments	(224,970)	(16,569)
Changes in operating assets and liabilities:		
Accounts receivable	(561,457)	(277,451)
Prepaid expenses and other	(1,638)	(8,075)
Beneficial interest in assets at		
Community Foundation of Middle Tennessee	-	(1,340)
Accounts payable	42,030	(82,195)
Accrued expenses	99,599	43,779
Deferred grant revenue	(1,257,300)	1,267,300
Net cash flows from operating activities	<u>2,746,244</u>	<u>1,251,192</u>
Cash flows from investing activities:		
Net proceeds from disposal of property and equipment	9,003	300
Purchases of property and equipment	(270,047)	(49,638)
Proceeds from sale and maturation of investments	332,971	173,598
Purchase of investments	(638,994)	(679,974)
Net cash flows from investing activities	<u>(567,067)</u>	<u>(555,714)</u>
Cash flows from financing activities:		
Payments on notes payable	(18,404)	(41,878)
Net cash flows from financing activities	<u>(18,404)</u>	<u>(41,878)</u>
Change in cash and cash equivalents	2,160,773	653,600
Cash and cash equivalents, beginning of year	1,837,924	1,184,324
Cash and cash equivalents, end of year	<u>\$ 3,998,697</u>	<u>\$ 1,837,924</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ 583</u>

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

EASTER SEALS TENNESSEE, INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2021 AND 2020

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.

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 Easter Seals 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 Easter Seals 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, Easter Seals 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 unrealized gains and losses recognized currently in the statements of activities.

Easter Seals 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 Easter Seals 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.

EASTER SEALS TENNESSEE, INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2021 AND 2020

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

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. Easter Seals' 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 Easter Seals 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.

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, 2021 and 2020, 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 are 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 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.

EASTER SEALS TENNESSEE, INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2021 AND 2020

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

Easter Seals 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. Easter Seals 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 Easter Seals 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.

Donated Services – The services of volunteer workers are not assigned a value as such services do not generally meet the criteria for recognition. However, Easter Seals 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 2021 or 2020.

Subsequent Events – Easter Seals evaluated subsequent events through January 19, 2022, when these financial statements were available to be issued.

Adoption of New Accounting Pronouncement – In May 2014, FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under U.S. GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Easter Seals adopted the provisions of ASU 2014-09 and the related ASUs (“ASC 606”) as of September 1, 2020 using a modified retrospective approach, which resulted in no cumulative effect adjustment to net assets as of September 1, 2020. There was no change in the timing and amount of revenue recognition as a result of the adoption of ASC 606. Certain categories of revenue are not encompassed within the scope of the new ASU including contributions and grants revenue. See Note 2 for additional information related to revenue recognition.

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. Easter Seals is evaluating the impact this guidance may have on its financial statements.

As described in Note 1, Easter Seals accounts for revenue under ASC 606. Revenue is recognized when Easter Seals 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.

EASTER SEALS TENNESSEE, INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2021 AND 2020

Note 2—Revenue

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. Easter Seals' 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, Easter Seals 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 \$1,527,339 and \$843,932 at June 30, 2021 and 2020, respectively.

Disaggregation of Revenue – The table below depicts the disaggregation of revenue by service for the year ended August 31, 2021:

Adult services	\$	5,236,931
Employment and training		2,245,061
Other		90,876
	\$	<u>7,572,868</u>

Note 3—Liquidity and availability

Easter Seals 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, Easter Seals 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:

	2021	2020
Financial assets at year-end:		
Cash and cash equivalents	\$ 3,998,697	\$ 1,837,924
Investments	1,053,938	522,945
Accounts receivable	1,578,409	1,016,952
Total financial assets	<u>6,631,044</u>	<u>3,377,821</u>
Less amounts not available to be used for general expenditures within one year:		
Purpose restrictions	<u>12,450</u>	<u>12,450</u>
Financial assets not available to be used within one year	<u>12,450</u>	<u>12,450</u>
Financial assets available to meet general expenditures within one year	<u>\$ 6,618,594</u>	<u>\$ 3,365,371</u>

EASTER SEALS TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2021 AND 2020

Note 4—Investments

The following table sets forth Easter Seals' 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.
NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2021 AND 2020

Note 4—Investments (continued)

The following table sets forth Easter Seals' 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, 2020:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	\$ 13,480	\$ -	\$ -	\$ 13,480
Exchange-traded funds:				
Foreign large blend	17,048	-	-	17,048
Technology	15,444	-	-	15,444
Healthcare	12,017	-	-	12,017
Communications	10,881	-	-	10,881
Financial services	9,949	-	-	9,949
Consumer cyclical	7,505	-	-	7,505
Consumer defensive	7,083	-	-	7,083
Industrials	7,081	-	-	7,081
Small blend	4,974	-	-	4,974
Diversified Pacific/Asia	4,757	-	-	4,757
Pacific/Asia Ex-Japan stk	2,566	-	-	2,566
Equity energy	1,390	-	-	1,390
Large blend	699	-	-	699
Debt securities:				
Baa	-	1,735	-	1,735
Not rated	-	3,259	-	3,259
Equity securities:				
Financial services	93,945	-	-	93,945
Technology	66,569	-	-	66,569
Healthcare	46,691	-	-	46,691
Industrials	46,103	-	-	46,103
Consumer defensive	33,182	-	-	33,182
Consumer cyclical	31,376	-	-	31,376
Communication services	29,337	-	-	29,337
Real estate	28,029	-	-	28,029
Utilities	15,178	-	-	15,178
Basic materials	8,280	-	-	8,280
Energy	4,387	-	-	4,387
Total investments	<u>\$ 517,951</u>	<u>\$ 4,994</u>	<u>\$ -</u>	<u>\$ 522,945</u>

EASTER SEALS TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2021 AND 2020

Note 4—Investments (continued)

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

	2021	2020
Interest and dividend income	\$ 18,385	\$ 13,244
Realized and unrealized gain on investments	224,970	16,569
Investment income, net	<u>\$ 243,355</u>	<u>\$ 29,813</u>

Note 5—Accounts receivable

Accounts receivable consists of the following at August 31:

	2021	2020
Accounts receivable	\$ 558,778	\$ 588,999
Fees receivable from state agencies	1,019,631	427,953
Total accounts receivable	<u>\$ 1,578,409</u>	<u>\$ 1,016,952</u>

Note 6—Property and equipment

Property and equipment consists of the following at August 31:

	2021	2020
Leasehold improvements	\$ 38,444	\$ 37,328
Vehicles	1,293,934	1,229,703
Equipment	248,400	259,141
	1,580,778	1,526,172
Less accumulated depreciation	<u>(1,068,695)</u>	<u>(1,099,405)</u>
Property and equipment, net	<u>\$ 512,083</u>	<u>\$ 426,767</u>

Depreciation expense totaled \$184,731 and \$172,895 for the years ended August 31, 2021 and 2020, 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 statements of financial position totaling \$18,300 at August 31, 2021 and 2020.

EASTER SEALS TENNESSEE, INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2021 AND 2020

Note 8—Notes payable

Notes payable is comprised of the following at August 31:

	2021	2020
Note payable, unsecured, due in 72 monthly installments beginning July 2015, interest at 0% per annum.	\$ -	\$ 8,404

Note 9—Line of credit

At August 31, 2020, Easter Seals had available a revolving line of credit with a bank, with interest rates at the bank's index rate plus 1.0%. The current agreement provides for short-term borrowings of up to \$250,000 with interest payable monthly. The line of credit was secured by all assets of Easter Seals, primarily accounts receivable and property. The agreement matured in April 2021 and was not renewed. Easter Seals had no outstanding borrowings under this agreement at August 31, 2020.

Note 10—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 statement of activities for the year ended August 31, 2021.

Note 11—Net assets with donor restrictions

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

	2021	2020
Camp fund	\$ 12,450	\$ 12,450
Donor restricted endowment	1,164	1,164
	\$ 13,614	\$ 13,614

Note 12—Concentration

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

EASTER SEALS TENNESSEE, INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2021 AND 2020

Note 12—Concentration (continued)

Easter Seals receives a substantial amount of its support from governmental grants and contracts. During fiscal years 2021 and 2020, Easter Seals received approximately 52% and 80%, 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 Easter Seals' programs and services. At August 31, 2021 and 2020, Easter Seals had \$1,019,631 and \$427,953, respectively, due in fees receivable from government entities.

A significant amount of the support and revenue included in the accompanying 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.

Note 13—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, 2021 and 2020 were \$4,192 and \$5,034, respectively.

Note 14—Lease commitments

Easter Seals 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,

2022	\$	85,647
2023		54,150
2024		34,047
	\$	<u>173,844</u>

Rent expense under all operating leases amounted to \$122,075 and \$146,516 for the years ended August 31, 2021 and 2020, respectively.

Note 15—Contingencies

Easter Seals is subject to various claims and legal actions which arise in the ordinary course of business. Easter Seals 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 Easter Seals' financial position or results of operations.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant volatility in the financial markets. The coronavirus outbreak and government responses are creating disruption to global supply chains and adversely impacting many industries. The outbreak has caused a material, adverse impact on the economic and market conditions. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material, adverse impact of the coronavirus outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to Easter Seals, its performance, and its financial results.

**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***

The Board of Directors
Easter Seals Tennessee, Inc.
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. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 19, 2022 .

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Easter Seals Tennessee, Inc.'s internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Easter Seals Tennessee, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Easter Seals Tennessee, 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 Easter Seals Tennessee, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Easter Seals Tennessee, 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 Easter Seals Tennessee, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cheng Bekant LLP

Nashville, Tennessee
January 19, 2022

EASTER SEALS TENNESSEE, INC.
SCHEDULE OF PRIOR YEAR FINDINGS

YEAR ENDED AUGUST 31, 2021

There were no prior year findings reported.