

EASTER SEALS TENNESSEE, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

As of and for the Years Ended August 31, 2019 and 2018

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, 2019

Board of Directors

John Pfeiffer
Chuck Mataya
Steve Deckard
Steve Zimmerman
Jeff Bridges
Caryl Atwood
Karen Blake
Lee Molette
Rhonda Phillippi
Jeb Beasley
David Beecham
Perry Moulds
Jocelynne McCall
Glenn Rose

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

Executive Staff

Tim Ryerson
Susan Brown
Cathy Breland
Brent Goodman
Brandy Hudson
Jennifer Wang
Darryl Wilkerson

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

Report of Independent Auditor

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, 2019 and 2018, 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, 2019 and 2018, 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.

Changes in Financial Statement Presentation

As discussed in Note 1, Easter Seals Tennessee, Inc. adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

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

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 auditing 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 30, 2020, on our consideration of 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Easter Seals Tennessee, Inc.’s internal control over financial reporting and compliance.

Cheryl Beckett LLP

Nashville, Tennessee
January 30, 2020

EASTER SEALS TENNESSEE, INC.
STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2019 AND 2018

	2019	2018
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,184,324	\$ 574,339
Accounts receivable	739,501	1,321,402
Prepaid expenses and other	72,535	63,933
Total Current Assets	1,996,360	1,959,674
Property and equipment, net	550,024	279,092
Beneficial interest in assets at		
Community Foundation of Middle Tennessee	16,960	16,125
Total Assets	\$ 2,563,344	\$ 2,254,891
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 95,097	\$ 76,745
Accrued expenses	338,402	317,171
Notes payable, current	28,513	42,541
Total Current Liabilities	462,012	436,457
Notes payable, net of current portion	21,769	49,432
Total Liabilities	483,781	485,889
Net Assets:		
Without Donor Restrictions:		
Undesignated	2,050,153	1,739,552
Designated for endowment	15,796	14,961
Total Net Assets Without Donor Restrictions	2,065,949	1,754,513
With Donor Restrictions	13,614	14,489
Total Net Assets	2,079,563	1,769,002
Total Liabilities and Net Assets	\$ 2,563,344	\$ 2,254,891

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, 2019 AND 2018

	2019	2018
Change in Net Assets Without Donor Restrictions:		
Public Support and Revenue:		
Government fees and grants	\$ 6,475,934	\$ 6,115,345
Contract services	1,396,052	1,297,354
Contributions	112,864	116,208
Camp fees	81,285	104,794
Special events, net of event costs of \$37,337 and \$42,213, respectively	64,473	81,272
Gain on sale of property and equipment	4,000	2,083
Other revenue	10,860	749
Released from restriction for purpose accomplished	875	875
Total Public Support and Revenue	<u>8,146,343</u>	<u>7,718,680</u>
Expenses:		
Program Services:		
Direct services	7,253,946	6,782,272
Public health education	20,612	19,243
Total Program Services	<u>7,274,558</u>	<u>6,801,515</u>
Supporting Services:		
Management and general	374,759	354,282
Fundraising	104,062	99,398
National program fee	81,528	50,190
Total Supporting Services	<u>560,349</u>	<u>503,870</u>
Total Expenses	<u>7,834,907</u>	<u>7,305,385</u>
Change in Net Assets Without Donor Restrictions	<u>311,436</u>	<u>413,295</u>
Change in Net Assets With Donor Restrictions:		
Released from restriction for purpose accomplished	<u>(875)</u>	<u>(875)</u>
Change in Net Assets With Donor Restrictions	<u>(875)</u>	<u>(875)</u>
Change in net assets	310,561	412,420
Net assets, beginning of year	1,769,002	1,356,582
Net assets, end of year	<u>\$ 2,079,563</u>	<u>\$ 1,769,002</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, 2019

	Program Services			Supporting Services				
	Direct	Public		Management		National		Total
	Services	Health	Total	and	Fundraising	Program	Total	Expenses
		Education		General		Fee		
Salaries and related expenses	\$ 6,068,066	\$ 18,259	\$ 6,086,325	\$ 222,162	\$ 86,197	\$ -	\$ 308,359	\$ 6,394,684
Supplies	244,524	-	244,524	2,545	1,397	-	3,942	248,466
Insurance	221,405	666	222,071	4,747	2,055	-	6,802	228,873
Occupancy	144,696	-	144,696	81,677	-	-	81,677	226,373
Professional fees	161,201	485	161,686	36,907	1,526	-	38,433	200,119
Travel and transportation	171,382	516	171,898	6,922	398	-	7,320	179,218
Depreciation	130,385	392	130,777	10,172	4,359	-	14,531	145,308
National program fee	-	-	-	-	-	81,528	81,528	81,528
Telephone	51,838	156	51,994	2,177	553	-	2,730	54,724
Rental and maintenance of equipment	18,293	55	18,348	1,537	1,305	-	2,842	21,190
Membership and support payments	12,690	-	12,690	1,270	820	-	2,090	14,780
Utilities	13,078	39	13,117	85	-	-	85	13,202
Conferences, conventions, and meetings	8,730	26	8,756	1,913	936	-	2,849	11,605
Postage and shipping	712	2	714	998	2,089	-	3,087	3,801
Printing and publications	801	2	803	551	2,427	-	2,978	3,781
Building and grounds maintenance	2,370	7	2,377	-	-	-	-	2,377
Advertising	2,228	7	2,235	-	-	-	-	2,235
Miscellaneous	697	-	697	1,096	-	-	1,096	1,793
Interest	850	-	850	-	-	-	-	850
Total expenses	<u>\$ 7,253,946</u>	<u>\$ 20,612</u>	<u>\$ 7,274,558</u>	<u>\$ 374,759</u>	<u>\$ 104,062</u>	<u>\$ 81,528</u>	<u>\$ 560,349</u>	<u>\$ 7,834,907</u>

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

EASTER SEALS TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2018

	Program Services			Supporting Services				
	Direct	Public		Management		National		Total
	Services	Health	Total	and	Fundraising	Program	Total	Expenses
		Education		General		Fee		
Salaries and related expenses	\$ 5,659,874	\$ 17,031	\$ 5,676,905	\$ 209,342	\$ 82,542	\$ -	\$ 291,884	\$ 5,968,789
Occupancy	152,593	-	152,593	77,704	-	-	77,704	230,297
Supplies	224,094	-	224,094	1,660	1,061	-	2,721	226,815
Insurance	211,577	637	212,214	4,961	1,823	-	6,784	218,998
Professional fees	143,800	433	144,233	36,648	1,386	-	38,034	182,267
Travel and transportation	169,436	510	169,946	2,700	212	-	2,912	172,858
Depreciation	117,395	353	117,748	9,159	3,925	-	13,084	130,832
National program fee	-	-	-	-	-	50,190	50,190	50,190
Telephone	45,997	138	46,135	2,328	546	-	2,874	49,009
Rental and maintenance of equipment	20,296	61	20,357	1,399	1,115	-	2,514	22,871
Utilities	14,798	45	14,843	-	-	-	-	14,843
Membership and support payments	9,155	-	9,155	2,780	1,466	-	4,246	13,401
Conferences, conventions, and meetings	8,452	25	8,477	1,460	321	-	1,781	10,258
Printing and publications	486	1	487	554	2,741	-	3,295	3,782
Postage and shipping	505	2	507	952	2,260	-	3,212	3,719
Miscellaneous	911	-	911	2,635	-	-	2,635	3,546
Building and grounds maintenance	1,861	6	1,867	-	-	-	-	1,867
Interest	546	-	546	-	-	-	-	546
Advertising	496	1	497	-	-	-	-	497
Total Expenses	<u>\$ 6,782,272</u>	<u>\$ 19,243</u>	<u>\$ 6,801,515</u>	<u>\$ 354,282</u>	<u>\$ 99,398</u>	<u>\$ 50,190</u>	<u>\$ 503,870</u>	<u>\$ 7,305,385</u>

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

EASTER SEALS TENNESSEE, INC.
STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 310,561	\$ 412,420
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	145,308	130,832
Gain on disposal of property and equipment	(4,000)	(2,083)
Donated property and equipment	(291,600)	-
Changes in operating assets and liabilities:		
Accounts receivable	581,901	94,150
Prepaid expenses and other	(8,602)	4,016
Beneficial interest in assets held by others	(835)	(1,042)
Accounts payable	18,352	(33,087)
Accrued expenses	21,231	(148,730)
Net cash provided by operating activities	<u>772,316</u>	<u>456,476</u>
Cash flows from investing activities:		
Net proceeds from disposal of property and equipment	4,000	2,083
Purchases of property and equipment	<u>(124,640)</u>	<u>(28,697)</u>
Net cash used in investing activities	<u>(120,640)</u>	<u>(26,614)</u>
Cash flows from financing activities:		
Payments on notes payable	<u>(41,691)</u>	<u>(40,467)</u>
Net cash used in financing activities	<u>(41,691)</u>	<u>(40,467)</u>
Net increase in cash and cash equivalents	609,985	389,395
Cash and cash equivalents, beginning of year	<u>574,339</u>	<u>184,944</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,184,324</u></u>	<u><u>\$ 574,339</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 850</u>	<u>\$ 546</u>
Noncash investing and financing activity:		
Vehicle purchase financed by note payable	<u>\$ -</u>	<u>\$ 35,076</u>
Vehicles donated through grant	<u><u>\$ 291,600</u></u>	<u><u>\$ -</u></u>

EASTER SEALS TENNESSEE, INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2019 AND 2018

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 the 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.

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, 2019 and 2018, 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, 2019 AND 2018

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

Easter Seals follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification 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 fifty percent 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 accounting principles generally accepted in the United States of America 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 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 year 2019 and 2018.

Subsequent Events – Easter Seals evaluated subsequent events through January 30, 2020, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

Change in Accounting Principle – In August 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The standard addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively to all periods presented.

Forthcoming Accounting Pronouncements – In May 2014, the FASB issued 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. ASU 2014-09 is effective for Easter Seals for the year ending August 31, 2020. Easter Seals is currently evaluating the effect of the implementation of this new standard.

EASTER SEALS TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2019 AND 2018

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

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance revises accounting related to (1) the classification and measurement of investment in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for the year ending August 31, 2020. Easter Seals is evaluating the impact this guidance may have on its financial statements.

In February 2016, the 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, 2022. Easter Seals is evaluating the impact this guidance may have on its financial statements.

In June 2018, FASB issued ASU 2018-08, *Not for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance in this ASU clarifies the accounting guidance for contributions received and contributions made. The amendments in this ASU will assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This guidance is effective for the year ending August 31, 2020. Easter Seals is evaluating the impact of this ASU on the financial statements.

Note 2—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, 2019:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,184,324	\$ 574,339
Accounts receivable	739,501	1,321,402
Total financial assets	<u>1,923,825</u>	<u>1,895,741</u>
Less amounts not available to be used for general expenditures within one year:		
Purpose restrictions	<u>12,450</u>	<u>13,325</u>
Financial assets not available to be used within one year	<u>12,450</u>	<u>13,325</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,911,375</u>	<u>\$ 1,882,416</u>

In addition, a line of credit arrangement is available for short-term borrowings of up to \$250,000.

EASTER SEALS TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2019 AND 2018

Note 3—Accounts receivable

Accounts receivable consists of the following at August 31:

	2019	2018
Accounts receivable	\$ 333,117	\$ 921,728
Fees receivable from state agencies	406,384	399,674
Total accounts receivable	<u>\$ 739,501</u>	<u>\$ 1,321,402</u>

Note 4—Property and equipment

Property and equipment consists of the following at August 31:

	2019	2018
Leasehold improvements	\$ 32,765	\$ 32,765
Vehicles	1,264,185	962,429
Equipment	<u>223,667</u>	<u>181,427</u>
	1,520,617	1,176,621
Less accumulated depreciation	<u>(970,593)</u>	<u>(897,529)</u>
Net property and equipment	<u>\$ 550,024</u>	<u>\$ 279,092</u>

Depreciation expense totaled \$145,308 and \$130,832 for the years ended August 31, 2019 and 2018, respectively.

Note 5—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 \$16,960 and \$16,125 at August 31, 2019 and 2018, respectively.

EASTER SEALS TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2019 AND 2018

Note 6—Notes payable

Notes payable is comprised of the following at August 31:

	2019	2018
Note payable, unsecured, due in 72 monthly installments beginning June 2013, interest at 0% per annum.	\$ -	\$ 8,874
Note payable, unsecured, due in 72 monthly installments beginning April 2014, interest at 0% per annum.	6,870	18,894
Note payable, unsecured, due in 72 monthly installments beginning October 2014, interest at 0% per annum.	4,120	7,960
Note payable, unsecured, due in 72 monthly installments beginning July 2015, interest at 0% per annum.	16,852	25,300
Note payable, unsecured, due in 48 monthly installments beginning March 2018, interest at 3.14% per annum.	22,440	30,945
	<u>\$ 50,282</u>	<u>\$ 91,973</u>

The following represents principal maturities of notes payable as of August 31, 2019:

<u>Year Ending August, 31,</u>	
2020	\$ 28,513
2021	18,039
2022	<u>3,730</u>
Total principal maturities	50,282
Less current portion	<u>(28,513)</u>
Long-term obligations	<u>\$ 21,769</u>

Note 7—Line of credit

At August 31, 2019 and 2018, 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 is secured by all assets of Easter Seals, primarily accounts receivable and property. The agreement matures in April 2021. Easter Seals had no outstanding borrowings under this agreement at August 31, 2019 or 2018.

EASTER SEALS TENNESSEE, INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2019 AND 2018

Note 8—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 receives a substantial amount of its support from governmental grants and contracts. During fiscal years 2019 and 2018, Easter Seals received approximately 79% 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, 2019 and 2018, Easter Seals had \$406,384 and \$399,674, respectively, due in fees receivable from government entities.

Note 9—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, 2019 and 2018 were \$3,359 and \$1,835, respectively.

Note 10—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,

2020	\$	124,318
2021		105,362
2022		67,647
2023		36,150
2024		34,047
	\$	<u>367,524</u>

Rent expense under all operating leases amounted to \$240,005 and \$243,962 for the years ended August 31, 2019 and 2018, respectively.

Note 11—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.

SUPPLEMENTAL INFORMATION

EASTER SEALS TENNESSEE, INC.**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE***YEAR ENDED AUGUST 31, 2019*

Grantor	Program Name	CFDA Number	Contract Number	Passed Through to Subrecipients	Expenditures
Federal Financial Assistance:					
U.S. Department of Transportation Passed Through:					
State of Tennessee Dept. of Transportation	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	DG-19-57934-00	\$ -	\$ 259,200
Total CFDA No. 20.513				-	259,200
Total U.S. Department of Transportation				-	259,200
Total Federal Awards				-	259,200
State Financial Assistance:					
State of Tennessee Dept. of Transportation	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	DG-19-57934-00	-	32,400
Total State of Tennessee Department of Transportation				-	32,400
State of Tennessee Department of Health	Traumatic Brain Injury Program	N/A	GR-19-57749-07	-	57,830
Total State of Tennessee Department of Health				-	57,830
Total State Financial Assistance				-	90,230
Total Federal Awards and State Financial Assistance				\$ -	\$ 349,430

EASTER SEALS TENNESSEE, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

AUGUST 31, 2019

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. under programs of the federal and state government for the year ended August 31, 2019. 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.

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.

**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, 2019, 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 30, 2020.

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") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 Beikant LLP

Nashville, Tennessee
January 30, 2020

EASTER SEALS TENNESSEE, INC.
SCHEDULE OF PRIOR YEAR FINDINGS

YEAR ENDED AUGUST 31, 2019

There were no prior year findings reported.