

EASTER SEALS TENNESSEE, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

As of and for the Years Ended August 31, 2020 and 2019

And Report of Independent Auditor

EASTER SEALS TENNESSEE, INC.
TABLE OF CONTENTS

ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF 1

REPORT OF INDEPENDENT AUDITOR.....2-3

FINANCIAL STATEMENTS

 Statements of Financial Position.....4

 Statements of Activities.....5

 Statements of Functional Expenses6-7

 Statements of Cash Flows8

 Notes to the Financial Statements9-17

SUPPLEMENTAL INFORMATION

 Schedule of Expenditures of Federal Awards and State Financial Assistance 18

 Notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance 19

 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*20-21

 Schedule of Prior Year Findings22

EASTER SEALS TENNESSEE, INC.

ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF

AS OF AUGUST 31, 2020

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

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, 2020 and 2019, 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, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 15, towards the end of December 2019, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. There have been various mandates and/or requests from federal, state, and local authorities resulting in closures of non-essential businesses, which could negatively impact the Easter Seals Tennessee, Inc.'s operations. Although it is not possible to reasonably estimate the length or severity of this outbreak and hence its financial impact, any significant reduction of revenues and support could negatively impact the Easter Seals Tennessee, Inc.'s operations for an indeterminable time period. 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 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 18, 2021, 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 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 the Easter Seals Tennessee, Inc.'s internal control over financial reporting and compliance.

Cheng Bekeant LLP

Nashville, Tennessee
January 18, 2021

EASTER SEALS TENNESSEE, INC.
STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2020 AND 2019

	2020	2019
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,837,924	\$ 1,184,324
Investments	522,945	-
Accounts receivable	1,016,952	739,501
Prepaid expenses and other	80,610	72,535
Total Current Assets	3,458,431	1,996,360
Property and equipment, net	426,767	550,024
Beneficial interest in assets at Community Foundation of Middle Tennessee	18,300	16,960
Total Assets	\$ 3,903,498	\$ 2,563,344
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 12,902	\$ 95,097
Accrued expenses	382,181	338,402
Deferred grant revenue	1,267,300	-
Notes payable, current	8,404	28,513
Total Current Liabilities	1,670,787	462,012
Notes payable, net of current portion	-	21,769
Total Liabilities	1,670,787	483,781
Net Assets:		
Without Donor Restrictions:		
Undesignated	2,201,961	2,050,153
Designated for endowment	17,136	15,796
Total Net Assets Without Donor Restrictions	2,219,097	2,065,949
With Donor Restrictions	13,614	13,614
Total Net Assets	2,232,711	2,079,563
Total Liabilities and Net Assets	\$ 3,903,498	\$ 2,563,344

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, 2020 AND 2019

	2020	2019
Change in Net Assets Without Donor Restrictions:		
Public Support and Revenue:		
Government fees and grants	\$ 6,367,480	\$ 6,475,934
Contract services	1,162,283	1,396,052
Contributions	352,196	112,864
Camp fees	11,964	81,285
Special events, net of event costs of \$670 and \$37,337, respectively	16,830	64,473
Gain on sale of property and equipment	300	4,000
Investment income, net	29,813	10,860
Other revenue	12,000	-
Released from restriction for purpose accomplished	-	875
Total Public Support and Revenue	<u>7,952,866</u>	<u>8,146,343</u>
Expenses:		
Program Services:		
Direct services	7,252,872	7,253,946
Public health education	20,767	20,612
Total Program Services	<u>7,273,639</u>	<u>7,274,558</u>
Supporting Services:		
Management and general	362,487	374,759
Fundraising	107,465	104,062
National program fee	56,127	81,528
Total Supporting Services	<u>526,079</u>	<u>560,349</u>
Total Expenses	<u>7,799,718</u>	<u>7,834,907</u>
Change in Net Assets Without Donor Restrictions	<u>153,148</u>	<u>311,436</u>
Change in Net Assets With Donor Restrictions:		
Released from restriction for purpose accomplished	-	(875)
Change in Net Assets With Donor Restrictions	<u>-</u>	<u>(875)</u>
Change in net assets	153,148	310,561
Net assets, beginning of year	2,079,563	1,769,002
Net assets, end of year	<u>\$ 2,232,711</u>	<u>\$ 2,079,563</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 this statement.

EASTER SEALS TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2019

	Program Services			Supporting Services				Total Expenses
	Direct Services	Public Health Education	Total	Management and General	Fundraising	National Program Fee	Total	
Salaries and related expenses	\$ 6,068,066	\$ 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.
STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 153,148	\$ 310,561
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	172,895	145,308
Gain on disposal of property and equipment	(300)	(4,000)
Realized and unrealized gain on investments	(16,569)	-
Donated property and equipment	-	(291,600)
Changes in operating assets and liabilities:		
Accounts receivable	(277,451)	581,901
Prepaid expenses and other	(8,075)	(8,602)
Beneficial interest in assets at Community Foundation of Middle Tennessee	(1,340)	(835)
Accounts payable	(82,195)	18,352
Accrued expenses	43,779	21,231
Deferred grant revenue	1,267,300	-
Net cash provided by operating activities	<u>1,251,192</u>	<u>772,316</u>
Cash flows from investing activities:		
Net proceeds from disposal of property and equipment	300	4,000
Purchases of property and equipment	(49,638)	(124,640)
Proceeds from sale and maturation of investments	173,598	-
Purchase of investments	(679,974)	-
Net cash used in investing activities	<u>(555,714)</u>	<u>(120,640)</u>
Cash flows from financing activities:		
Payments on notes payable	(41,878)	(41,691)
Net cash used in financing activities	<u>(41,878)</u>	<u>(41,691)</u>
Net increase in cash and cash equivalents	653,600	609,985
Cash and cash equivalents, beginning of year	1,184,324	574,339
Cash and cash equivalents, end of year	<u>\$ 1,837,924</u>	<u>\$ 1,184,324</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 583</u>	<u>\$ 850</u>
Noncash investing and financing activity:		
Vehicles donated through grant	<u>\$ -</u>	<u>\$ 291,600</u>

EASTER SEALS TENNESSEE, INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2020 AND 2019

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, 2020 AND 2019

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, 2020 and 2019, 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, 2020 AND 2019

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 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 year 2020 and 2019.

Subsequent Events – Easter Seals evaluated subsequent events through January 18, 2021, when these financial statements were available to be issued.

Adoption of New Accounting Pronouncement – In June 2018, FASB issued Accounting Standards Update (“ASU”) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard provides guidance on determining whether a transaction should be accounted for as a contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. The standard also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. Easter Seals evaluated the new standard and determined the accounting standard did not require a change to Easter Seals’ practice for recording contributions.

In January 2016, 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. Easter Seals evaluated the new standard and determined the accounting standard did not require a change to Easter Seals’ practice for recording financial assets and liabilities.

EASTER SEALS TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2020 AND 2019

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

Forthcoming Accounting Pronouncements – In May 2014, 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, 2021. Easter Seals is currently evaluating the effect of the implementation of this new standard.

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.

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:

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,837,924	\$ 1,184,324
Investments	522,945	-
Accounts receivable	1,016,952	739,501
Total financial assets	<u>3,377,821</u>	<u>1,923,825</u>
Less amounts not available to be used for general expenditures within one year:		
Purpose restrictions	12,450	12,450
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>\$ 3,365,371</u>	<u>\$ 1,911,375</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, 2020 AND 2019

Note 3—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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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, 2020 AND 2019

Note 3—Investments (continued)

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

	2020	2019
Interest and dividend income	\$ 13,244	\$ 10,860
Realized and unrealized gain on investments	16,569	-
Investment income, net	<u>\$ 29,813</u>	<u>\$ 10,860</u>

Note 4—Accounts receivable

Accounts receivable consists of the following at August 31:

	2020	2019
Accounts receivable	\$ 588,999	\$ 333,117
Fees receivable from state agencies	427,953	406,384
Total accounts receivable	<u>\$ 1,016,952</u>	<u>\$ 739,501</u>

Note 5—Property and equipment

Property and equipment consists of the following at August 31:

	2020	2019
Leasehold improvements	\$ 37,328	\$ 32,765
Vehicles	1,229,703	1,264,185
Equipment	259,141	223,667
	<u>1,526,172</u>	<u>1,520,617</u>
Less accumulated depreciation	<u>(1,099,405)</u>	<u>(970,593)</u>
Property and equipment, net	<u>\$ 426,767</u>	<u>\$ 550,024</u>

Depreciation expense totaled \$172,895 and \$145,308 for the years ended August 31, 2020 and 2019, respectively.

Note 6—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 and \$16,960 at August 31, 2020 and 2019, respectively.

EASTER SEALS TENNESSEE, INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2020 AND 2019

Note 7—Notes payable

Notes payable is comprised of the following at August 31:

	2020	2019
Note payable, unsecured, due in 72 monthly installments beginning April 2014, interest at 0% per annum.	\$ -	\$ 6,870
Note payable, unsecured, due in 72 monthly installments beginning October 2014, interest at 0% per annum.	-	4,120
Note payable, unsecured, due in 72 monthly installments beginning July 2015, interest at 0% per annum.	8,404	16,852
Note payable, unsecured, due in 48 monthly installments beginning March 2018, interest at 3.14% per annum.	-	22,440
	<u>\$ 8,404</u>	<u>\$ 50,282</u>

The following represents principal maturities of notes payable as of August 31, 2020:

<u>Year Ending August, 31,</u>	
2021	\$ 8,404
Total principal maturities	8,404
Less current portion	<u>(8,404)</u>
Long-term obligations	<u>\$ -</u>

Note 8—Line of credit

At August 31, 2020 and 2019, 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, 2020 or 2019.

Note 9—Deferred grant revenue

Easter Seals received a Paycheck Protection Program loan ("PPP") in the amount of \$1,267,300. The PPP loan is granted by the Small Business Administration 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 has deferred recognition of grant revenue for the year ended August 31, 2020, because the conditions for forgiveness had not yet been substantially met. Subsequent to August 31, 2020, the Small Business Administration notified Easter Seals that the loan had been forgiven. The loan payoff to the bank on behalf of Easter Seals occurred on November 4, 2020.

EASTER SEALS TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2020 AND 2019

Note 10—Net assets with donor restrictions

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

	2020	2019
Camp fund	\$ 12,450	\$ 12,450
Donor restricted endowment	1,164	1,164
	<u>\$ 13,614</u>	<u>\$ 13,614</u>

Note 11—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 2020 and 2019, Easter Seals received approximately 80% and 79%, 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, 2020 and 2019, Easter Seals had \$427,953 and \$406,384, respectively, due in fees receivable from government entities.

Note 12—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, 2020 and 2019 were \$5,034 and \$3,359, respectively.

Note 13—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:

<u>Years Ending August, 31,</u>	
2021	\$ 105,362
2022	67,647
2023	36,150
2024	34,047
2025	-
	<u>\$ 243,206</u>

Rent expense under all operating leases amounted to \$146,516 and \$240,005 for the years ended August 31, 2020 and 2019, respectively.

EASTER SEALS TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2020 AND 2019

Note 14—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.

Note 15—Uncertainty

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.

SUPPLEMENTAL INFORMATION

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

YEAR ENDED AUGUST 31, 2020

<u>Grantor</u>	<u>Program Name</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Passed Through to Subrecipients</u>	<u>Expenditures</u>
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-20-61726	\$ -	\$ 144,000
Total CFDA No. 20.513				-	144,000
Total U.S. Department of Transportation				-	144,000
Total Federal Awards				-	144,000
State Financial Assistance:					
State of Tennessee Dept. of Transportation	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	DG-20-61726	-	18,000
Total State of Tennessee Department of Transportation				-	18,000
State of Tennessee Department of Health	Traumatic Brain Injury Program	N/A	GR-19-57749-07	-	14,400
Total State of Tennessee Department of Health				-	14,400
Total State Financial Assistance				-	32,400
Total Federal Awards and State Financial Assistance				\$ -	\$ 176,400

EASTER SEALS TENNESSEE, INC.

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

AUGUST 31, 2020

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, 2020. 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, 2020, 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 18, 2021.

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.

Cherry Bekant LLP

Nashville, Tennessee

January 18, 2021

EASTER SEALS TENNESSEE, INC.
SCHEDULE OF PRIOR YEAR FINDINGS

YEAR ENDED AUGUST 31, 2020

There were no prior year findings reported.