

**EASTER SEALS SERVING DC | MD | VA**  
**AUDITED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**YEARS ENDED AUGUST 31, 2022 AND 2021**

# Easter Seals Serving DC | MD | VA

## Table of Contents

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	<b>Page</b>
<b>Independent Auditor's Report</b>	1 - 3
<b>Financial Statements</b>	
Statements of Financial Position	4 - 5
Statements of Activities and Changes in Net Assets	6 - 7
Statements of Functional Expenses	8 - 9
Statements of Cash Flows	10 - 11
Notes to Financial Statements	12 - 33
<b>Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	34 - 35
<b>Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance</b>	36 - 38
Schedule of Expenditures of Federal Awards	39
Notes to Schedule of Expenditures of Federal Awards	40
Schedule of Findings and Questioned Costs	41 - 47
Management's Response and Corrective Action Plan (Unaudited)	Appendix A

## **Independent Auditor's Report**

To the Board of Directors  
**Easter Seals Serving DC | MD | VA**  
Silver Spring, Maryland

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of **Easter Seals Serving DC | MD | VA** (a nonprofit organization), which comprise the Statements of Financial Position as of August 31, 2022 and 2021, and the related Statements of Activities and Changes in Net Assets, Functional Expenses, and Cash Flows for the years then ended, and the related notes to the financial statements.

In our opinion, the 2022 financial statements referred to above present fairly, in all material respects, the financial position of **Easter Seals Serving DC | MD | VA** as of August 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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

#### ***Prior Period Financial Statements***

The financial statements as of August 31, 2021, were audited by Aronson LLC, who merged with Aprio, LLP as of January 1, 2023, and whose report dated April 19, 2022, expressed an unmodified opinion on those statements.

#### ***Responsibilities of Management for the Financial Statements***

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

## **Independent Auditor's Report (Continued)**

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Easter Seals Serving DC | MD | VA**'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

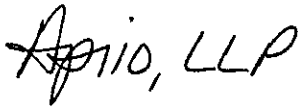
## Independent Auditor's Report (Continued)

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2023, on our consideration of **Easter Seals Serving DC | MD | VA'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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of **Easter Seals Serving DC | MD | VA's** internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Easter Seals Serving DC | MD | VA's** internal control over financial reporting and compliance.



Rockville, Maryland  
March 1, 2023

## Easter Seals Serving DC | MD | VA

### Statements of Financial Position

<i>August 31,</i>	2022	2021
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 6,569,418	\$ 4,298,547
Accounts receivable, net	1,311,990	241,580
Contributions receivable, net	3,072,766	2,876,775
Prepaid expenses	163,442	102,335
<b>Total current assets</b>	<b>11,117,616</b>	<b>7,519,237</b>
<b>Property and equipment, net</b>	<b>22,303,499</b>	<b>23,282,631</b>
<b>Other assets</b>		
Contributions receivable, net of current portion	177,604	765,472
Investments	7,922,930	7,499,714
Deposit and other assets	201,800	184,791
Interest rate swap asset	120,871	-
<b>Total other assets</b>	<b>8,423,205</b>	<b>8,449,977</b>
<b>Total assets</b>	<b>\$ 41,844,320</b>	<b>\$ 39,251,845</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

## Easter Seals Serving DC | MD | VA

### Statements of Financial Position

<i>August 31,</i>	<b>2022</b>	<b>2021</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Long-term debt, current portion	\$ 373,116	\$ 2,340,061
Accounts payable and accrued expenses	1,000,449	794,172
Accrued salaries	788,654	688,891
Accrued vacation	237,345	210,198
Refundable advances	58,107	253,139
Deferred revenue	352,667	291,346
<b>Total current liabilities</b>	<b>2,810,338</b>	<b>4,577,807</b>
Long-term debt, net of current portion	7,843,637	8,238,330
Less: bond issuance costs, net	(262,922)	(295,672)
Total long-term debt, net of bond issuance costs	7,580,715	7,942,658
Interest rate swap obligation	-	379,123
Deferred rent	214,154	188,561
<b>Total long-term liabilities</b>	<b>7,794,869</b>	<b>8,510,342</b>
<b>Total liabilities</b>	<b>10,605,207</b>	<b>13,088,149</b>
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	16,637,390	15,376,690
Board designated	6,520,791	6,004,710
<b>Total net assets without donor restrictions</b>	<b>23,158,181</b>	<b>21,381,400</b>
With donor restrictions	8,080,932	4,782,296
<b>Total net assets</b>	<b>31,239,113</b>	<b>26,163,696</b>
<b>Total liabilities and net assets</b>	<b>\$ 41,844,320</b>	<b>\$ 39,251,845</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

## Easter Seals Serving DC | MD | VA

### Statement of Activities and Changes in Net Assets

<i>Year Ended August 31, 2022</i>	Without Donor Restrictions	With Donor Restrictions	Total
<b>Program revenue and support</b>			
Program service fees	\$ 7,497,836	\$ -	\$ 7,497,836
Government contracts	1,623,102	-	1,623,102
Contributions:			
Government grants	11,739,099	-	11,739,099
Individual, corporate, and bequest gifts	2,841,530	6,856,428	9,697,958
Special events income	915,016	-	915,016
Less direct costs	(296,340)	-	(296,340)
Net special events	618,676	-	618,676
<b>Total</b>	<b>24,320,243</b>	<b>6,856,428</b>	<b>31,176,671</b>
<b>Other:</b>			
In-kind donations	48,000	-	48,000
Other income	132,400	-	132,400
Net assets released from restrictions	3,541,139	(3,541,139)	-
<b>Total other revenue</b>	<b>3,721,539</b>	<b>(3,541,139)</b>	<b>180,400</b>
<b>Total operating revenue and support</b>	<b>28,041,782</b>	<b>3,315,289</b>	<b>31,357,071</b>
<b>Operating expenses</b>			
<b>Program services:</b>			
Community health	19,742,703	-	19,742,703
Public health education	628,193	-	628,193
<b>Total program services</b>	<b>20,370,896</b>	<b>-</b>	<b>20,370,896</b>
<b>Supporting activities:</b>			
Management and general	4,475,303	-	4,475,303
Fundraising	1,110,555	-	1,110,555
<b>Total supporting activities</b>	<b>5,585,858</b>	<b>-</b>	<b>5,585,858</b>
<b>Total operating expenses</b>	<b>25,956,754</b>	<b>-</b>	<b>25,956,754</b>
<b>Change in net assets before non-operating activities</b>	<b>2,085,028</b>	<b>3,315,289</b>	<b>5,400,317</b>
<b>Non-operating activities</b>			
Investment return	(808,241)	(16,653)	(824,894)
Gain on interest rate swap	499,994	-	499,994
<b>Total non-operating activities</b>	<b>(308,247)</b>	<b>(16,653)</b>	<b>(324,900)</b>
<b>Change in net assets</b>	<b>1,776,781</b>	<b>3,298,636</b>	<b>5,075,417</b>
<b>Net assets, beginning of year</b>	<b>21,381,400</b>	<b>4,782,296</b>	<b>26,163,696</b>
<b>Net assets, end of year</b>	<b>\$ 23,158,181</b>	<b>\$ 8,080,932</b>	<b>\$ 31,239,113</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.



## Easter Seals Serving DC | MD | VA

### Statement of Activities and Changes in Net Assets

<i>Year Ended August 31, 2021</i>	Without Donor Restrictions	With Donor Restrictions	Total
<b>Program revenue and support</b>			
Program service fees	\$ 6,142,336	\$ -	\$ 6,142,336
Government contracts	1,375,959	-	1,375,959
Contributions:			
Government grants	8,859,959	-	8,859,959
Individual, corporate, and bequest gifts	865,568	5,125,120	5,990,688
Special events income	793,385	-	793,385
Less direct costs	(117,479)	-	(117,479)
Net special events	675,906	-	675,906
<b>Total</b>	<b>17,919,728</b>	<b>5,125,120</b>	<b>23,044,848</b>
<b>Other:</b>			
In-kind donations	120,214	-	120,214
Other income	84,710	-	84,710
Net assets released from restrictions	2,916,748	(2,916,748)	-
<b>Total other revenue</b>	<b>3,121,672</b>	<b>(2,916,748)</b>	<b>204,924</b>
<b>Total operating revenue and support</b>	<b>21,041,400</b>	<b>2,208,372</b>	<b>23,249,772</b>
<b>Operating expenses</b>			
<b>Program services:</b>			
Community health	16,670,512	-	16,670,512
Public health education	628,193	-	628,193
<b>Total program services</b>	<b>17,298,705</b>	<b>-</b>	<b>17,298,705</b>
<b>Supporting activities:</b>			
Management and general	4,140,523	-	4,140,523
Fundraising	777,959	-	777,959
<b>Total supporting activities</b>	<b>4,918,482</b>	<b>-</b>	<b>4,918,482</b>
<b>Total operating expenses</b>	<b>22,217,187</b>	<b>-</b>	<b>22,217,187</b>
<b>Change in net assets before non-operating activities</b>	<b>(1,175,787)</b>	<b>2,208,372</b>	<b>1,032,585</b>
<b>Non-operating activities</b>			
Investment return	1,061,086	-	1,061,086
Gain on interest rate swap	226,900	-	226,900
<b>Total non-operating activities</b>	<b>1,287,986</b>	<b>-</b>	<b>1,287,986</b>
<b>Change in net assets</b>	<b>112,199</b>	<b>2,208,372</b>	<b>2,320,571</b>
<b>Net assets, beginning of year</b>	<b>21,269,201</b>	<b>2,573,924</b>	<b>23,843,125</b>
<b>Net assets, end of year</b>	<b>\$ 21,381,400</b>	<b>\$ 4,782,296</b>	<b>\$ 26,163,696</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

# Easter Seals Serving DC | MD | VA

## Statement of Functional Expenses

Year Ended August 31, 2022	Community Health	Public Health Education	Total Program Services	Management and General	Fundraising	Total Supporting Activities	Total
Salaries	\$ 10,863,490	\$ 517,044	\$ 11,380,534	\$ 2,166,067	\$ 656,796	\$ 2,822,863	\$ 14,203,397
Fringe benefits	1,704,690	95,149	1,799,839	445,002	125,582	570,584	2,370,423
Total salaries and benefits	12,568,180	612,193	13,180,373	2,611,069	782,378	3,393,447	16,573,820
Bad debts	-	-	-	233,814	-	233,814	233,814
Bank charges	8,531	-	8,531	18,076	5,005	23,081	31,612
Contract labor	487,410	-	487,410	16,446	8,333	24,779	512,189
Depreciation and amortization	991,820	-	991,820	47,312	-	47,312	1,039,132
Dues	10,310	-	10,310	94,752	2,230	96,982	107,292
Equipment	199,008	-	199,008	42,902	2,788	45,690	244,698
Event expenses	749	-	749	-	303,649	303,649	304,398
Insurance	2,244	-	2,244	181,368	-	181,368	183,612
Interest	254,916	-	254,916	38,783	-	38,783	293,699
MIS software expenses	163,515	-	163,515	127,286	34,653	161,939	325,454
Occupancy	1,633,015	-	1,633,015	366,042	14,413	380,455	2,013,470
Other expenses	127,916	-	127,916	25,222	23,624	48,846	176,762
Postage and shipping	3,519	-	3,519	1,737	3,435	5,172	8,691
Printing	11,408	-	11,408	9,219	41,072	50,291	61,699
Professional services	1,296,227	16,000	1,312,227	496,302	176,311	672,613	1,984,840
Recruitment	149,236	-	149,236	107,490	4,242	111,732	260,968
Staff development and travel	159,578	-	159,578	17,364	2,880	20,244	179,822
Supplies	1,091,368	-	1,091,368	3,383	1,387	4,770	1,096,138
Taxes and licenses	137,384	-	137,384	8,267	397	8,664	146,048
Telephone	100,486	-	100,486	28,469	98	28,567	129,053
Vehicle costs	345,883	-	345,883	-	-	-	345,883
Total expenses	19,742,703	628,193	20,370,896	4,475,303	1,406,895	5,882,198	26,253,094
Less: direct donor benefits	-	-	-	-	(296,340)	(296,340)	(296,340)
<b>Total expenses, net of direct donor benefits</b>	<b>\$ 19,742,703</b>	<b>\$ 628,193</b>	<b>\$ 20,370,896</b>	<b>\$ 4,475,303</b>	<b>\$ 1,110,555</b>	<b>\$ 5,585,858</b>	<b>\$ 25,956,754</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

# Easter Seals Serving DC | MD | VA

## Statement of Functional Expenses

Year Ended August 31, 2021

	Community Health	Public Health Education	Total Program Services	Management and General	Fundraising	Total Supporting Activities	Total
Salaries	\$ 9,469,754	\$ 517,044	\$ 9,986,798	\$ 2,076,575	\$ 591,677	\$ 2,668,252	\$ 12,655,050
Fringe benefits	1,705,489	95,149	1,800,638	410,499	96,132	506,631	2,307,269
Total salaries and benefits	11,175,243	612,193	11,787,436	2,487,074	687,809	3,174,883	14,962,319
Bad debts	30,816	-	30,816	296,108	-	296,108	326,924
Bank charges	6,683	-	6,683	13,271	-	13,271	19,954
Contract labor	197,525	-	197,525	8,650	-	8,650	206,175
Depreciation and amortization	1,065,236	-	1,065,236	86,971	-	86,971	1,152,207
Dues	12,993	-	12,993	96,886	1,577	98,463	111,456
Equipment	354,144	-	354,144	27,190	3,128	30,318	384,462
Event expenses	-	-	-	-	117,479	117,479	117,479
Insurance	11,573	-	11,573	161,438	-	161,438	173,011
Interest	265,113	-	265,113	39,060	-	39,060	304,173
Occupancy	1,069,880	-	1,069,880	444,728	13,271	457,999	1,527,879
Other expenses	61,180	-	61,180	2,804	14,567	17,371	78,551
Postage and shipping	1,399	-	1,399	1,791	818	2,609	4,008
Printing	1,514	-	1,514	830	15,385	16,215	17,729
Professional services	1,141,843	16,000	1,157,843	371,921	32,792	404,713	1,562,556
Recruitment	112,073	-	112,073	67,286	6,421	73,707	185,780
Staff development and travel	101,949	-	101,949	13,906	1,717	15,623	117,572
Supplies	832,651	-	832,651	3,667	462	4,129	836,780
Taxes and licenses	101,633	-	101,633	1,375	-	1,375	103,008
Telephone	87,371	-	87,371	15,567	12	15,579	102,950
Vehicle costs	39,693	-	39,693	-	-	-	39,693
Total expenses	16,670,512	628,193	17,298,705	4,140,523	895,438	5,035,961	22,334,666
Less: direct donor benefits	-	-	-	-	(117,479)	(117,479)	(117,479)
Total expenses, net of direct donor benefits	\$ 16,670,512	\$ 628,193	\$ 17,298,705	\$ 4,140,523	\$ 777,959	\$ 4,918,482	\$ 22,217,187

The accompanying Notes to Financial Statements are an integral part of these financial statements.

## Easter Seals Serving DC | MD | VA

### Statements of Cash Flows

<i>Years Ended August 31,</i>	<b>2022</b>	<b>2021</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 5,075,417	\$ 2,320,571
<b>Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:</b>		
Forgiveness of PPP loan	(2,000,000)	(2,577,232)
Depreciation and amortization	1,039,132	1,152,207
Amortization of bond issuance costs	32,750	32,750
Net realized and unrealized loss (gain) on investments	885,516	(1,020,710)
Change in discount on contribution receivables	-	(9,489)
Gain on interest rate swap	(499,994)	(226,900)
Change in allowance for doubtful accounts	(50,832)	171,604
Contributed property and equipment	(48,000)	(120,214)
<b>Changes in assets and liabilities:</b>		
<b>(Increase) decrease in</b>		
Accounts receivable and contributions receivable	(627,701)	(1,428,451)
Prepaid expenses, deposits and other assets	(78,116)	7,823
<b>Increase (decrease) in:</b>		
Accounts payable and accrued expenses, accrued salaries, and accrued vacation	333,187	335,100
Refundable advances	(195,032)	180,789
Deposits	61,321	(7,272)
Deferred rent	25,593	111,588
<b>Net cash provided (used) by operating activities</b>	<b>3,953,241</b>	<b>(1,077,836)</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(12,000)	(75,982)
Purchase of investments	(4,337,899)	(3,563,816)
Proceeds from sale of investments	3,029,167	1,504,411
<b>Net cash used in investing activities</b>	<b>(1,320,732)</b>	<b>(2,135,387)</b>
<b>Cash flows from financing activities</b>		
Proceeds from loan	-	2,000,000
Principal payments on long-term debt	(361,638)	(349,704)
<b>Net cash (used) provided by financing activities</b>	<b>(361,638)</b>	<b>1,650,296</b>
<b>Net change in cash and cash equivalents</b>	<b>2,270,871</b>	<b>(1,562,927)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>4,298,547</b>	<b>5,861,474</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 6,569,418</b>	<b>\$ 4,298,547</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

## Easter Seals Serving DC | MD | VA

### Statements of Cash Flows (continued)

<i>Years Ended August 31,</i>	2022	2021
<b>Supplemental disclosures</b>		
Interest paid	\$ 254,916	\$ 265,113
<b>Noncash investing and financing transactions:</b>		
Contributed property and equipment	\$ 48,000	\$ 120,214
Forgiveness of PPP loan	\$ 2,000,000	\$ 2,577,232

The accompanying Notes to Financial Statements are an integral part of these financial statements.

## Easter Seals Serving DC | MD | VA

### Notes to Financial Statements

#### 1. Organization and significant accounting policies

**Organization:** Easter Seals Serving DC | MD | VA (Easter Seals or the Organization) is a not-for-profit organization providing educational and therapeutic services to children and adults with disabilities and special needs and their families in the District of Columbia and portions of Maryland, Virginia, and West Virginia. Services provided include the following:

Easter Seals' Adult & Senior Medical Day Services provide a cost-effective long-term care alternative to institutionalization for adults 18 years of age and older, and seniors with developmental, intellectual or physical disabilities or special needs. Services help to improve the quality of life through the effective management of chronic conditions, cognitive and physical stimulation, and clinical oversight.

Easter Seals' Child Development Centers enable young children to reach their full potential when they reach school age by providing high quality inclusive early education and intervention programs for children ages six weeks through pre-kindergarten with and without disabilities. Programs provided include early care and education, early intervention, and intergenerational activities to ensure the highest standards of health, safety and early childhood education.

Easter Seals' Military and Veterans Programs assist active duty military, wounded warriors, veterans and their families to overcome barriers and transition to civilian life by addressing their unique physical and mental health needs. Current service offerings include veteran employment programs, family respite, Little Warriors child care, medical day services to veterans and wounded warriors, and mental and behavioral health services.

Easter Seals' Respite Services prevents caregiver burnout and keeps families whole by providing high-quality respite care to families that have at least one child diagnosed with highly specialized medical or educational challenges. The program includes children with disabilities or special needs and their siblings as well as the children of military personnel, wounded warriors, and veterans. This break from "constant" and stressful caregiving is provided in homes or in-center.

Easter Seals' Therapy Services Program provides comprehensive therapy services to children. The program offers individualized occupational, physical, cognitive and speech language therapy for children in their child development center.

Easter Seals' Early Head Start and Head Start Programs promote school readiness and are designed to help break the cycle of poverty by meeting children's emotional, social, health, nutritional and psychological needs. Children of low-income families in Prince George's County, Maryland are provided with Early Head Start (0-3) and Head Start (3-5) programs at no-cost; in the District of Columbia, an Early Head Start program is offered at no charge to participants.

## Easter Seals Serving DC | MD | VA

### Notes to Financial Statements

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Easter Seals' Disability Staffing Network (EDSN, pronounced "Edison") empowers people with disabilities to obtain integrated, competitive employment. It is a social venture employment agency that will match people with disabilities with a wide range of private sector employers.

**Basis of accounting:** The Organization's financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

**Basis of presentation:** Under the financial reporting standards for not-for-profit organizations, net assets, revenue and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed stipulations, include undesignated net assets available for general operations and board designated, which consists of net assets without donor restrictions that are designated by the Board of Directors.

**Net assets with donor restrictions:** Net assets subject to donor-imposed stipulations as to time or purpose of use. Some stipulations are met by actions of the Organization, some are met by the passage of time and some must be maintained in perpetuity. Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction expires or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

**Cash and cash equivalents:** Cash and cash equivalents include all monies in banks and highly liquid investments with original maturity dates of ninety days or less. The Organization maintains cash balances which may, at times, exceed federally insured limits. Management does not believe that this results in any significant credit risk.

**Accounts receivable:** Accounts receivable are due from third parties and private payments from individuals, and include amounts due under Federal contracts. The allowance for doubtful accounts is based on management's estimates of the individuals' ability to pay their accounts, analysis of delinquent accounts, payment histories of the accounts and management's judgment with respect to current economic conditions. In the opinion of management, the allowance for doubtful accounts is set at a sufficient level to respond to normal business conditions as well as unforeseen circumstances. Management increases or decreases the reserve based on factors that arise during the year or anticipated events. The allowance is determined by periodic reviews and was \$191,272 and \$182,000 as of August 31, 2022 and 2021, respectively.

**Contributions receivable:** Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on promises to give are computed using a discount rate of 2-3% as of August 31, 2022 and 2021. Amortization of the discount is included in contribution revenue. The allowance for doubtful accounts is based on management's estimates of the analysis of delinquent accounts, payment histories of the accounts and management's judgment with respect to current economic conditions. In the opinion of management, the allowance for doubtful accounts is set at a sufficient level to respond to normal business conditions as well as unforeseen circumstances. Management increases or decreases the allowance based on factors that arise during the year or anticipated events. The allowance is determined by periodic reviews and was \$6,000 and \$66,104 as of August 31, 2022 and 2021, respectively.

**Investments:** Investments are recorded at cost if purchased, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Purchases and sales of investments are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains (losses) include the Organization's gains and losses on investments bought and sold as well as held during the year.

The Organization values certain investments at fair value in accordance with a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly;



Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

**Property and equipment:** Property and equipment acquisitions are capitalized and carried at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Useful lives range from 3 to 39 years. The Organization capitalizes all property and equipment purchased with a cost of \$5,000 or more. Construction in progress is not depreciated until completed and placed in service. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as contributions without restrictions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies the net assets with donor restrictions to net assets without donor restrictions at that time.

**Impairment of long-lived assets:** The Organization periodically evaluates the carrying value of long-lived assets, including, but not limited to, property and equipment, and other assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from such an asset are separately identifiable and are less than its carrying value. In that event, a loss is recognized to the extent that the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. At August 31, 2022 and 2021, management does not believe an impairment adjustment is required.

**Bond issuance costs:** Bond issuance costs related to the Inter-Generational Center of \$519,288 and bond issuance costs related to the Child Development Center in Northern Virginia of \$157,500 are amortized over the life of the bond using the straight-line method which approximates the effective interest rate method. Unamortized bond financing costs are reported with bonds payable. Accumulated amortization on these deferred financing costs as of August 31, 2022 and 2021 was \$413,866 and \$381,116, respectively. Amortization expense for each of the years ended August 31, 2022 and 2021 was \$32,750.

**Key person life insurance policy:** The Organization holds an insurance policy insuring the life of a former President of the Organization in the amount of \$1,000,000. The Organization is the owner and the beneficiary of the policy. Included in deposits and other assets on the Statements of Financial Position is the cash surrender value of \$126,797 and \$109,788 as of August 31, 2022 and 2021, respectively.

**Derivative instruments:** The Organization follows the accounting and reporting standards for derivative instruments and hedging activities, which require that entities report all derivatives as either assets or liabilities in the Statements of Financial Position, and measure those instruments at fair value. The change in the derivative's value is reported as a gain or loss in the Statements of Activities and Changes in Net Assets. The Organization holds an interest rate swap which is a common derivative used by not-for-profit organizations to manage interest rate risk.

**Revenue recognition:** Easter Seals recognizes revenue in accordance with Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (ASC 606). The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The five-step model is outlined below:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Accordingly, the following revenue streams are within the scope of ASC 606:

**Program service fees:** Fees for services are the Organization's primary exchange transaction revenues and consist of revenues for various care services performed by Easter Seals and staffing placement fees.

## Easter Seals Serving DC | MD | VA

### Notes to Financial Statements

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**Care services (private pay and Medicaid)** - The Organization provides various care services depending on the needs such as day care, long-term care, respite services, therapy services, and meals services, to participants enrolled in the Organization's care services programs in exchange for a predetermined fee. The transaction price is fixed and the Organization generally bills the participants and third-party payors on a monthly basis several days after the services are performed. These services generally result in a single performance obligation. Revenue for performance obligations is satisfied over time based the number of days of service. Each day of service is associated with a predetermined rate. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the agreement. Revenue is recognized net of internal discounts or price concessions totaling \$153,541 and \$186,432 for the years ending August 31, 2022 and 2021, respectively. These discounts and concessions are generally based on financial needs for certain groups of customers.

**Staff placement fees (temporary to permanent positions)** - The Organization acts as a staffing agency placing veterans enrolled in temporary to, potentially, permanent employment positions with third party organizations. These services generally result in a single performance obligation. Revenue is recognized over the time period of temporary employment on a ratable, time-elapsd basis until permanent placement occurs at which time, an additional placement fee is earned. The transaction price during temporary employment is a fixed hourly rate, while the permanent placement fee is based on a percentage of the placed employee's annual wages. Invoices are billed on a monthly basis.

**Government contracts:** The Organization is the recipient of various fixed price government contracts. These types of contracts generally each have one performance obligation. Revenue is recognized over time as the related services are provided. The transaction price is fixed. The Organization uses an input method based on labor hours. Invoices are billed on a monthly basis.

**Other revenue:** Other revenue is primarily made up of one-time counseling fees, consultation fees, and other miscellaneous revenues. These types of contracts generally have each one performance obligation and is recognized at a point in time when the related event takes place.

## Easter Seals Serving DC | MD | VA

### Notes to Financial Statements

The following represents the Organization's exchange transaction revenue disaggregated by timing of the satisfaction of performance obligations for the years ended August 31:

	<u>2022</u>	<u>2021</u>
Revenue recognized over time		
Care services	\$ 4,899,961	\$ 4,341,366
Staff placement services	2,597,875	1,800,970
Government contracts	1,623,102	1,375,959
<u>Total exchange transaction revenue recognized over time</u>	<u>9,120,938</u>	<u>7,518,295</u>
Revenue recognized at point in time		
Other revenue	132,400	84,710
<u><b>Total exchange transaction revenue</b></u>	<u><b>\$ 9,253,338</b></u>	<u><b>\$ 7,603,005</b></u>

The following revenue streams are outside the scope of ASC 606:

**Contributions:** Contributions are recognized when unconditionally promised or received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Consequently, at August 31, 2022 and 2021, the Organization received cost-reimbursable grants approximating \$6,168,737 and \$5,193,000, respectively, from government agencies that have not been recognized or recorded because qualifying expenditures have not been incurred.

As of August 31, 2022 and 2021, other payments received in advance relating to conditional contributions which have not yet been recognized totaled \$58,107 and \$253,139, respectively.

**Special events income:** Special events income consists of contributions received, net of related direct costs, in connection with special events and is recognized when the event takes place.

## Easter Seals Serving DC | MD | VA

### Notes to Financial Statements

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**In-kind donations:** In-kind donations are recorded at their fair market value as of the date of donation. During the year ended August 31, 2021, the Organization's in-kind donations consisted of two vehicles with a combined fair value of \$150,266. The Organization was required to pay \$30,052 against the fair value of the vehicles. The remaining portion of \$120,214 was recorded as in-kind donations. During the year ended August 31, 2022, in-kind donations consisted of one vehicle with a fair value of \$60,000. The Organization was required to pay \$12,000 against the fair value of the vehicle. The remaining portion of \$48,000 was recorded as in-kind donations in the accompanying Statement of Activities and Changes in Net Assets.

**Contract balances:** Contract balances include accounts receivable which are billed and unbilled for amounts related to services provided to customers. Contract liabilities include amounts paid by customers for which services have not yet been provided and are included in deferred revenue. The balances of accounts receivable (net of allowance of \$53,500) and deferred revenue as of September 1, 2020 totaled \$667,152 and \$298,618, respectively.

**Functional allocation of expenses:** The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries, fringe benefits, depreciation and amortization, insurance, recruitment, and telephone expenses are allocated on the basis of time and effort. Occupancy expenses are allocated on the basis of estimates of square footage.

**Tax status:** The Organization is exempt from federal income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the accompanying financial statements. For the years ended August 31, 2022 and 2021, the Organization had no unrelated business income.

**Uncertainty in income taxes:** The Organization evaluates uncertainty in income tax positions based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of August 31, 2022 and 2021, there are no accruals for uncertain tax positions. If applicable, the Organization records interest and penalties as a component of income tax expense. Tax years from 2019 through the current year remain open for examination by tax authorities.

**Use of estimates:** The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that could affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

**Reclassifications:** Certain 2021 balances have been reclassified to conform with the 2022 presentation. The reclassifications have no effect on the previously reported 2021 changes in net assets or net asset balances at September 1, 2021.

**Recently adopted accounting pronouncements:** In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including in-kind contributions. The standard includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The new standard, as amended, is to be applied retrospectively to annual reporting periods beginning after June 15, 2021. The Organization adopted the standard on September 1, 2021. The standard did not have a material impact on the financial statements. The non-cash contributions are presented separately on the Statements of Activities and Changes in Net Assets and disclosed in Note 1.

**Recent accounting pronouncements not yet adopted:** In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the existing lease accounting standard and sets out principles for the recognition, measurement, presentation and disclosure of leases. Under the new guidance, a lessee will be required to recognize lease assets and lease liabilities for all leases with lease terms in excess of twelve months. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. The Organization adopted this new standard as of September 1, 2022.

**Subsequent events:** Management has evaluated subsequent events for disclosure in these financial statements through March 1, 2023, which is the date the financial statements were available to be issued.

## Easter Seals Serving DC | MD | VA

### Notes to Financial Statements

**2. Liquidity and availability of resources**

The following represents the Organization's financial assets at August 31:

	2022	2021
Financial assets at year end:		
Cash and cash equivalents	\$ 6,569,418	\$ 4,298,547
Accounts receivable, net	1,311,990	241,580
Contributions receivable, net	3,250,370	3,642,247
Investments	7,922,930	7,499,714
Total resources available	19,054,708	15,682,088
Less amounts not available to be used within one year:		
Donor restrictions:		
Temporary and purpose restrictions	(7,929,211)	(4,613,922)
Permanent restrictions	(151,721)	(168,374)
Board designated net assets	(6,520,791)	(6,004,710)
Total	(14,601,723)	(10,787,006)
Financial assets available to meet general expenditures within a year	\$ 4,452,985	\$ 4,895,082

The Organization's goal is to maintain financial assets to meet at least 60 days of normal operating expenses (approximately \$4,000,000). The Organization's operating expenses consist of program expenses, general and administrative expenses, and fundraising expenses. As part of its liquidity plan, excess cash may be invested in financial securities. With board resolution, board designated funds can be drawn upon to meet any unanticipated requirements that may arise during the year.

**3. Investments**

Investments consist of the following at August 31:

	2022	2021
Money market account	\$ 729,458	\$ 364,143
Domestic equity securities	4,883,586	4,384,149
International equity securities	391,950	802,421
Exchange traded funds	1,301,983	1,343,641
Single premium deferred annuity (SPDA)	615,953	605,360
<b>Total investments</b>	<b>\$ 7,922,930</b>	<b>\$ 7,499,714</b>

Easter Seals Serving DC | MD | VA

Notes to Financial Statements

4. Fair value The fair value of the financial instruments and investments is as follows:

August 31, 2022	Total	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<b>Interest rate swap asset</b>	\$ 120,871	\$ -	\$ 120,871
<b>Investments:</b>			
Domestic equity securities	\$ 4,883,586	\$ 4,883,586	\$ -
International equity securities	391,950	391,950	-
Exchange traded funds	1,301,983	1,301,983	-
Single premium deferred annuity	615,953	-	615,953
Total investments at fair value	7,193,472	\$ 6,577,519	\$ 615,953
Money market account valued at cost	729,458		
<b>Total investment portfolio</b>	\$ 7,922,930		



## Easter Seals Serving DC | MD | VA

### Notes to Financial Statements

August 31, 2021	Total	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Interest rate swap liability	\$ (379,123)	\$ -	\$ (379,123)
Investments:			
Domestic equity securities	\$ 4,384,149	\$ 4,384,149	\$ -
International equity securities	802,421	802,421	-
Exchange traded funds	1,343,641	1,343,641	-
Single premium deferred annuity	605,360	-	605,360
Total investments at fair value	7,135,571	\$ 6,530,211	\$ 605,360
Money market account valued at cost	364,143		
Total investment portfolio	\$ 7,499,714		

Level 2 values for the interest rate swap were developed using inputs including current interest rates and LIBOR forward rates. The fair value of the interest rate swap is determined as an estimated net present value of the difference between periodic cash flows using current market interest rates and the rates to be incurred under the swap agreements for the same payment maturities. Level 2 values for the SPDA are derived using inputs from the related contracts and stated interest rates.

#### 5. Contributions receivable

The Organization is the recipient of unconditional promises to give or contributions receivable, which are expected to be received as follows as of August 31, 2022 and 2021:

	2022	2021
Contributions receivable expected in:		
Less than one year	\$ 3,072,766	\$ 2,876,775
One to five years	189,147	837,119
Total contributions receivable	3,261,913	3,713,894
Less: discount to present value	(5,543)	(5,543)
Less: allowance on doubtful accounts	(6,000)	(66,104)
Total contributions receivable, net	3,250,370	3,642,247
Less: current portion	(3,072,766)	(2,876,775)
<b>Long-term contributions receivable, net</b>	<b>\$ 177,604</b>	<b>\$ 765,472</b>

## Easter Seals Serving DC | MD | VA

### Notes to Financial Statements

- 6. Property and equipment** A summary of property and equipment as of August 31 is as follows:

	2022	2021
Land	\$ 1,264,789	\$ 1,264,789
Building and improvements	32,273,825	32,273,825
Furniture and equipment	726,339	726,339
Transportation equipment	1,752,778	1,692,778
Software	403,659	403,659
Total	36,421,390	36,361,390
Less: Accumulated depreciation	(14,117,891)	(13,078,759)
<b>Property and equipment, net</b>	<b>\$ 22,303,499</b>	<b>\$ 23,282,631</b>

Depreciation expense totaled \$1,039,132 and \$1,152,207 for the years ended August 31, 2022 and 2021, respectively.

- 7. Operating leases** In March 2017, the Organization entered into a lease agreement to rent office space in Silver Spring, Maryland. The lease expires in August 2026.

The Organization also has a lease for an Adult Day Services building located in Hagerstown, Maryland. The terms of the lease call for an initial lease period of two years. In July 2018, the lease was renewed as a month to month lease. In February 2020, the Organization signed a new lease agreement with another landlord for a lease term that expires fifteen years from the date of the lease commencement with a renewal option of an additional term of two periods of five years each. The lease is effective the date that all the landlord work has been substantially completed and the landlord has given 120 days prior notice to tenant.

During 2019, the Organization also entered into several lease agreements to rent spaces for the Head Start program. These leases expire through June 2029.

In May 2022, the Organization entered into a lease agreement to rent a Head Start Center in Washington, DC. The lease is set to expire on the fifteenth lease year following the rent commencement date. Monthly rental payments begin in May 2023. In connection with the lease, the Organization entered into an irrevocable standby letter of credit with M&T Bank on July 22, 2022. The letter of credit has a credit limit of \$200,000 and was unused as of August 31, 2022.

## Easter Seals Serving DC | MD | VA

### Notes to Financial Statements

Minimum future lease payments are as follows at August 31, 2022:

Year ending August 31,	Amount
2023	\$ 784,594
2024	966,617
2025	991,916
2026	1,018,377
2027	1,017,197
Thereafter	4,731,518
<b>Total</b>	<b>\$ 9,510,219</b>

Rent expense for the building and office spaces totaled \$835,457 and \$883,067 for the years ended August 31, 2022 and 2021, respectively.

The Organization leases equipment through leases with terms of less than one year. The Organization also has multiple operating leases for office equipment, which expire through April 2023. As of August 31, 2022, the minimum future lease payments due total \$10,743.

Rent expense related to the equipment leases was \$118,769 and \$106,274 for the years ended August 31, 2022 and 2021, respectively.

**8. Long-term debt**

Long-term debt at August 31, 2022 and 2021, consisted of the following:

	2022	2021
Bonds payable	\$ 6,900,287	\$ 7,261,925
Construction loans	1,316,466	1,316,466
PPP loan payable	-	2,000,000
Total long-term debt	8,216,753	10,578,391
Less: current portion	(373,116)	(2,340,061)
<b>Total long-term debt, net of current portion</b>	<b>\$ 7,843,637</b>	<b>\$ 8,238,330</b>

## Easter Seals Serving DC | MD | VA

### Notes to Financial Statements

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**Bonds payable:** On December 1, 2016, the Organization entered into a loan and financing agreement by and between Maryland Economic Development Corporation (as Issuer) and the Organization (as Borrower) and M&T Bank (as Lender) on Maryland Economic Development Corporation Economic Development Revenue Refunding Bonds (Easter Seals Project) Series 2016 in the amount of \$5,935,000. Monthly payments of principal and interest are due beginning January 1, 2017 through December 1, 2036, when the unpaid principal amount outstanding is due in full. The interest rate on the bond is 1.59% plus 70% of one-month LIBOR. The interest rate at August 31, 2022 and 2021 was 3.95% and 2.01%, respectively. As of August 31, 2022 and 2021, the outstanding balance was \$4,639,848 and \$4,886,852, respectively.

In June 2013, the Organization obtained a \$3,008,000 loan through a bank as trustee from proceeds of a tax-exempt bond issuance by the Commonwealth of Virginia, City of Falls Church Economic Development Authority. The loan was obtained to finance the purchase, expansion of and improvements to approximately 6,000 square feet of existing space located in Falls Church, Virginia. The space comprises approximately 10,000 square feet and houses the operations of an Easter Seals Child Development Center. The loan is collateralized by the property and improvements. The bank has the right to require the Organization to purchase the bond at par at the end of each 120-month period after closing subject to advance written notice given by the bank of not less than 120 days prior to the purchase date. Interest payments only were required for the initial 24 months; thereafter principal and interest payments are due based upon an amortization period of 23 years. The interest rate on the bond is fixed at 3.07%. As of August 31, 2022 and 2021, the outstanding balance was \$2,260,439 and \$2,375,073, respectively.

**Construction loans:** The Organization was awarded a loan in the amount of \$325,839 from the District of Columbia acting by and through the Department of Housing and Community Development for exterior and interior improvements to its DC facility. The loan is interest free and is payable in full in September 2045. The loan can be extended at the end of the 40-year period with the lender's approval. The loan is secured by a deed of trust lien in the favor of the lender. As of August 31, 2022 and 2021, the outstanding balance was \$325,839.

The Organization was awarded a loan in the amount of \$990,627 from the District of Columbia acting by and through the Department of Housing and Community Development for certain improvements to the Organization's DC Child Development Center. The loan is interest free and is payable in full in February 2048. The loan is secured by the property. As of August 31, 2022 and 2021, the balance was \$990,627.

## Easter Seals Serving DC | MD | VA

### Notes to Financial Statements

**PPP loan payable:** The Organization received two loans totaling \$2,000,000 and \$2,577,232 on March 17, 2021 and April 6, 2020, respectively, pursuant to the Paycheck Protection Program (PPP). Established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the average monthly payroll expenses. PPP loans and accrued interest are forgivable after a “covered period” (eight to 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll and non-payroll costs. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. On August 9, 2021, the Organization was approved for the first loan forgiveness of \$2,577,232 and on February 10, 2022, the Organization was approved for the second loan forgiveness of \$2,000,000. The Organization recorded \$2,000,000 and \$2,577,232 as revenue for the years ended August 31, 2022 and 2021, respectively, which is included in government grants on the Statements of Activities and Changes in Net Assets.

The bonds and the construction loans contain various financial covenants, which include a debt service coverage ratio of not less than 1.15 to 1.0, maintaining liquidity not less than the lesser of 100 days’ cash expenses or \$2,500,000, maintaining a ratio of the borrower’s indebtedness to tangible net worth not to exceed 1.00, and certified quarterly financial statements within 45 days after the end of each fiscal quarter. Interest expense incurred on the loans and bonds payable was \$254,916 and \$265,113 for the years ended August 31, 2022 and 2021, respectively. The Organization was in compliance with these covenants as of August 31, 2022.

Future minimum principal payments due under the loans and bonds payable as of August 31, 2022, are as follows:

<u>Year ending August 31,</u>	<u>Amount</u>
2023	\$ 373,116
2024	386,575
2025	399,838
2026	413,371
2027	427,218
Thereafter	6,216,635
<b>Total</b>	<b>\$ 8,216,753</b>

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- 9. Derivative instrument** On December 1, 2016, the Organization entered into an agreement with M&T bank to manage the exposure to changes in interest rates on the outstanding bond through the use of an interest rate swap. The agreement is set to expire on December 1, 2036. As of August 31, 2022, the notional amount of the swap was \$4,639,848. The swap effectively fixes the Organization's interest on the bond at approximately 2.064% for the expected term of the bond payable and the Organization will either pay (or be owed) the difference between that rate and the underlying floating rate (LIBOR) percentage multiplied by 70% each month based on a notional amount. The effective date of the interest rate swap agreement was December 1, 2016. The Organization does not use derivatives for trading purposes.
- The fair value of the Organization's swap agreement was recorded on the Statement of Financial Position as an asset in the amount of \$120,871 as of August 31, 2022 and a liability in the amount of \$379,123 as of August 31, 2021. The change in fair value was reported as a gain for 2022 and 2021 on the Statements of Activities and Changes in Net Assets.
- 10. Line of credit** On December 9, 2010, the Organization entered into a revolving line of credit agreement with M&T Bank. The line of credit has a credit limit of \$750,000 and bears interest at a fluctuating rate equal to the LIBOR rate plus 3% subject to a floor of 4%. There were no outstanding balances as of August 31, 2022 and 2021.
- 11. Retirement plan** The Organization has a money purchase plan under Section 403(b) of the Internal Revenue code for deferred compensation plans. Participation is voluntary and allows any qualifying employee to contribute pre-tax amounts through payroll withholdings up to the amount allowable by law. Effective October 2013, the 403(b) plan was restated to include employer contributions. The Organization may, at its discretion, match a percentage of employee deferrals. Expense related to these plans was \$121,719 and \$132,876 for the years ended August 31, 2022 and 2021, respectively.
- 12. Related party transactions** The Organization is an affiliate of Easter Seals, Inc. (National). National's purpose is to lead, empower, and support the affiliates to create solutions that change the lives of children, adults, and their families with disabilities or other special needs.
- The nature and extent of this relationship is more fully described in a membership agreement between the Organization and National dated September 3, 2004.
- The agreement calls for, among other things, annual membership fees in accordance with a fee formula established by National. Membership fees were \$89,510 and \$80,576 for the years ended August 31, 2022 and 2021, respectively. Amounts due to National at August 31, 2022 and 2021 were \$0 and \$8,102, respectively.

- 
- 13. Contingency**      The Organization receives cost-based grants from the United States Department of Labor and the United States Department of Health and Human Services. Such grants are subject to audit under the provisions of the Uniform Guidance. The ultimate determination of amounts received under the United States government grants is based upon allowance of costs reported to and accepted by the United States government.
- The funding of U.S. government programs is subject to an annual Congressional budget authorization and appropriation processes. The Organization cannot predict the impact on existing, follow-on or replacement programs of potential changes in priorities due to reductions in government spending levels.
- Changes to the federal budget could adversely affect the funding for individual programs and result in lower revenues and cash flows for the Organization.
- 14. Risks and uncertainties**      The Organization invests in various investment securities that are exposed to different risks such as interest rate, credit and market volatility risks. Due to the level of risk associated with certain securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the Organization's account balances and amounts reported in the Statements of Financial Position.
- 15. Concentration of risk**      During the years ended August 31, 2022 and 2021, the Organization received 32% and 26%, respectively of its revenue from two donors. As of August 31, 2022 and 2021, two donors had a contributions receivable balance outstanding which represented 73% and 49%, respectively, of total contributions receivable.
- 16. Employee retention tax credit**      Under the provisions of the CARES Act signed into law on March 27, 2020 and the subsequent extensions of certain provisions, the Organization was eligible for the refundable employee retention tax credit (ERTC) during 2022. The maximum credit in 2021 was \$7,000 per employee for each quarter through September 30, 2021. The Organization has accounted for the credit as a contribution under ASC 958-605. During the year ended August 31, 2022, the Organization recognized \$1,428,160 related to the ERTC which is presented within contributions – government grants on the accompanying Statements of Activities and Changes in Net Assets and contributions receivable on the accompanying Statements of Financial Position.

## Easter Seals Serving DC | MD | VA

### Notes to Financial Statements

**17. Net assets with donor restrictions** Net assets with donor restrictions are available for the following purposes at August 31:

	2022	2021
Temporary restrictions		
Child development centers	\$ 851,980	\$ 737,684
Adult day services	5,271,245	2,914,196
Inter-Generational Center (renovation)	124,800	203,500
Veteran staffing	405,000	125,000
Cohen Veteran Network grant and other grants	697,530	633,542
Advocacy	298,771	-
Bright Stars	277,385	-
Candid Conversations	2,500	-
Permanent restrictions		
Donor restricted endowment	151,721	168,374
<b>Total</b>	<b>\$ 8,080,932</b>	<b>\$ 4,782,296</b>

Net assets with donor restrictions were released from restrictions during the years ended August 31 as follows:

	2022	2021
Temporary restrictions		
Child development centers	\$ 120,000	\$ 175,317
Adult day services	2,826,737	238,154
Inter-Generational Center (renovation)	78,700	-
Respite	-	117
Veteran staffing	75,000	121,962
Veteran initiatives	-	32,597
Cohen Veteran Network grant and other grants	54,342	2,344,072
EDSN	-	1,029
Advocacy	300,647	2,500
Bright Stars	75,713	-
Candid Conversations	10,000	-
General fundraising	-	1,000
<b>Total</b>	<b>\$ 3,541,139</b>	<b>\$ 2,916,748</b>



**18. Endowment funds**

The Organization's Endowment is made up of two donations restricted for perpetuity: The Proctor Fund and the Easter Seals Fund. The income from the Proctor Fund must be used to support the Organization's Northern Virginia Child Development Center. The income from the Easter Seals Fund can be used for any activity consistent with the Organization's charitable purpose. Investment income and appreciation of the investments of both funds is reported as income without donor restrictions due to the restriction being met in the same year as receipt.

*Interpretation of the Relevant Law*

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions – perpetual in nature (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions – perpetual in nature is classified as net assets with donor restrictions – temporary purpose restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in determining whether to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the organization and donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and appreciation of investments;
6. Other resources of the Organization; and
7. The investment policies of the Organization.

*Return Objectives and Risk Parameters* – the Organization has adopted investment and spending policies for the endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to preserve the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. The organization's investment policy aims to maximize return on the assets by 1) providing for growth in real value, and 2) providing for temporary or longer term operating and/or capital needs.

## Easter Seals Serving DC | MD | VA

### Notes to Financial Statements

*Funds with Deficiencies* – As of August 31, 2022, the assets associated with individual donor-restricted endowment funds with an original value of \$168,374 and a current fair value of \$151,721 had a cumulative underwater deficiency of \$16,653. The Organization’s policy is not to spend funds with an underwater deficiency.

Changes in endowment net assets for the fiscal year ended August 31, 2022, are as follows:

	Without donor restrictions	With donor restrictions –temporary purpose restrictions	With donor restrictions – perpetual in nature	Total
Endowment net assets, beginning of year				
Proctor fund	\$ -	\$ -	\$ 134,658	\$ 134,658
Easter seals fund	-	-	33,716	33,716
Investment income	-	-	2,208	2,208
Net realized/ unrealized loss Amounts appropriated for expenditure	-	-	(18,861)	(18,861)
Endowment net assets, end of year				
Proctor fund	-	-	121,370	121,370
Easter seals fund	-	-	30,351	30,351
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 151,721</b>	<b>\$ 151,721</b>

## Easter Seals Serving DC | MD | VA

### Notes to Financial Statements

Changes in endowment net assets for the fiscal year ended August 31, 2021, are as follows:

	Without donor restrictions	With donor restrictions –temporary purpose restrictions	With donor restrictions – perpetual in nature	Total
Endowment net assets, beginning of year				
Proctor fund	\$ -	\$ -	\$ 134,658	\$ 134,658
Easter seals fund	-	-	33,716	33,716
Investment income	1,794	-	-	1,794
Net realized/ unrealized gain Amounts	22,762	-	-	22,762
appropriated for expenditure	(24,556)	-	-	(24,556)
Endowment net assets, end of year	\$ -	\$ -	\$ 168,374	\$ 168,374

#### 19. Subsequent event

In January 2023, the Organization entered into a lease agreement to operate a child development center in Arlington, Virginia. The lease is set to expire on the tenth anniversary of the rent commencement date. Monthly rental payments of \$4,810 with an annual 3% escalation will begin upon the lease commencement date. The lease commencement date is determined by the date the Organization commences using the premises for the operation of its business or the rent commencement deadline.

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

Board of Directors  
**Easter Seals Serving DC | MD | VA**  
Silver Spring, Maryland

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 Serving DC | MD | VA** (a nonprofit organization), which comprise the Statement of Financial Position as of August 31, 2022, and the related Statements of Activities and Changes in Net Assets, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 1, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered **Easter Seals Serving DC | MD | VA**'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 Serving DC | MD | VA**'s internal control. Accordingly, we do not express an opinion on the effectiveness of the **Easter Seals Serving DC | MD | VA**'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned as items 2022-001 and 2022-002 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-003 to be a significant deficiency.

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (continued)**

**Report on Compliance and Other Matters**

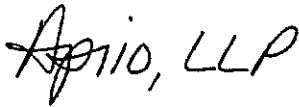
As part of obtaining reasonable assurance about whether **Easter Seals Serving DC | MD | VA**'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Easter Seals Serving DC | MD | VA's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the **Easter Seals Serving DC | MD | VA**'s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. **Easter Seals Serving DC | MD | VA**'s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**Purpose of This Report**

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



Rockville, Maryland  
March 1, 2023

**Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance**

Board of Directors  
**Easter Seals Serving DC | MD | VA**  
Silver Spring, Maryland

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited **Easter Seals Serving DC | MD | VA**'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of **Easter Seals Serving DC | MD | VA**'s major federal programs for the year ended August 31, 2022. **Easter Seals Serving DC | MD | VA**'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, **Easter Seals Serving DC | MD | VA** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2022.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of **Easter Seals Serving DC | MD | VA** and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of **Easter Seals Serving DC | MD | VA**'s compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to **Easter Seals Serving DC | MD | VA**'s federal programs.

## **Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance (continued)**

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on **Easter Seals Serving DC | MD | VA's** compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about **Easter Seals Serving DC | MD | VA's** compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding **Easter Seals Serving DC | MD | VA's** compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of **Easter Seals Serving DC | MD | VA's** internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of **Easter Seals Serving DC | MD | VA's** internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2022-004. Our opinion on each major federal program is not modified with respect to this matter.

*Government Auditing Standards* requires the auditor to perform limited procedures on **Easter Seals Serving DC | MD | VA's** response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs.

**Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance (continued)**

**Easter Seals Serving DC | MD | VA’s** response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

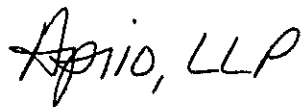
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-004 to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on **Easter Seals Serving DC | MD | VA’s** response to the internal control over compliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. **Easter Seals Serving DC | MD | VA’s** response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



Rockville, Maryland  
March 1, 2023



Easter Seals Serving DC | MD | VA

Schedule of Expenditures of Federal Awards

Year ended August 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-through Identifying / Grant Number	Passed Through to Subrecipients	Federal Expenditures
<b>United States Department of Labor</b>				
Homeless Veterans Reintegration Program	17.805	N/A	\$ -	\$ 929,741
<b>United States Department of Health and Human Services</b>				
Head Start (Cluster)	93.600	N/A	-	4,839,402
Head Start - COVID-19 (Cluster)	93.600	N/A	-	296,590
<i>Pass-through From D.C. Office of State Superintendent of Education</i>				
Head Start (Cluster)	93.600	03HP00352	-	491,810
Head Start (Cluster)	93.600	N/A	-	179,683
<b>Total Head Start Cluster</b>			-	<b>5,807,485</b>
Every Student Succeeds Act/Preschool Development Grant - COVID-19	93.434	LIIF-S425C210023	-	905,000
Child Care and Development Block Grant (CCDF Cluster)	93.575	N/A	-	851,277
<i>Pass-through From Washington Area Community Investment Fund</i>				
Child Care and Development Block Grant - COVID 19 (CCDF Cluster)	93.575	NA	-	138,592
<i>Pass-through From Maryland State Department of Education</i>				
Child Care and Development Block Grant (CCDF Cluster)	93.575	N/A	-	84,500
<b>Total CCDF Cluster</b>			-	<b>1,074,369</b>
<i>Pass-through From Metropolitan Washington Council of Governments Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution - COVID-19</i>	93.498	N/A	-	71,570
<b>Total direct and indirect United States Department of Health and Human Services</b>			-	<b>7,858,424</b>
<b>United States Department of Treasury</b>				
<i>Pass-through From Maryland Department of Health</i>				
Coronavirus State and Local Fiscal Recovery Funds - COVID-19	21.027	N/A	-	374,050
<b>Total expenditures of federal awards</b>			-	<b>9,162,215</b>
<b>Loan Balances</b>				
<b>United States Department of Housing and Urban Development</b>				
<i>Pass-through From D.C. Department of Housing and Community Development</i>				
Community Development Block Grant (CDBG - Entitlement Grants Cluster)	14.218	N/A	-	325,839
Community Development Block Grant (CDBG - Entitlement Grants Cluster)	14.218	DC-DHCD-2008-48	-	990,627
<b>Total loan balances (CDBG - Entitlement Grants Cluster)</b>			-	<b>1,316,466</b>
<b>Total Schedule of Expenditures of Federal Awards</b>			\$ -	<b>\$ 10,478,681</b>

Refer to accompanying Notes to Schedule of Expenditures of Federal Awards.

# Easter Seals Serving DC | MD | VA

## Notes to Schedule of Expenditures of Federal Awards

<b>1. Basis of presentation</b>	The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of Easter Seals Serving DC   MD   VA under programs of the federal government for the year ended August 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Easter Seals Serving DC   MD   VA, it is not intended to and does not present the financial position, changes in net assets, functional expenses, or cash flows of Easter Seals Serving DC   MD   VA.												
<b>2. Summary of significant accounting policies</b>	Expenditures reported on the Schedule are reported on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Such expenditures are recognized following the cost principles contained in OMB Circular A-122 “Cost Principles for Non-Profit Organizations” or in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.												
<b>3. Indirect cost rate</b>	The Organization has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.												
<b>4. Loan balances</b>	<p>Outstanding balances of government loans from federal sources at August 31, 2022 are as follows:</p> <table border="0" style="margin-left: 40px;"> <tr> <td colspan="2">United States Department of Housing and Urban Development</td> </tr> <tr> <td colspan="2"><i>Pass-through from D.C. Department of Housing and Community Development</i></td> </tr> <tr> <td style="padding-right: 20px;">Community Development Block Grant (CDBG Cluster)</td> <td style="text-align: right;">\$ 325,839</td> </tr> <tr> <td style="padding-right: 20px;">Community Development Block Grant (CDBG Cluster)</td> <td style="text-align: right;">990,627</td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td><b>Total government loans outstanding (CDBG – Entitlement Grants Cluster)</b></td> <td style="text-align: right;"><b>\$ 1,316,466</b></td> </tr> </table>	United States Department of Housing and Urban Development		<i>Pass-through from D.C. Department of Housing and Community Development</i>		Community Development Block Grant (CDBG Cluster)	\$ 325,839	Community Development Block Grant (CDBG Cluster)	990,627	<hr/>		<b>Total government loans outstanding (CDBG – Entitlement Grants Cluster)</b>	<b>\$ 1,316,466</b>
United States Department of Housing and Urban Development													
<i>Pass-through from D.C. Department of Housing and Community Development</i>													
Community Development Block Grant (CDBG Cluster)	\$ 325,839												
Community Development Block Grant (CDBG Cluster)	990,627												
<hr/>													
<b>Total government loans outstanding (CDBG – Entitlement Grants Cluster)</b>	<b>\$ 1,316,466</b>												
<b>5. Reconciliation to revenue</b>	<p>A reconciliation of the Schedule to the Statement of Activities and Changes in Net Assets for the year ended August 31, 2022 is as follows:</p> <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-right: 20px;">Federal grant expenditures</td> <td style="text-align: right;">\$ 9,162,215</td> </tr> <tr> <td style="padding-right: 20px;">Less: Government cost-reimbursement contract</td> <td style="text-align: right;">(851,276)</td> </tr> <tr> <td style="padding-right: 20px;">Employee retention tax credit</td> <td style="text-align: right;">1,428,160</td> </tr> <tr> <td style="padding-right: 20px;">PPP loan forgiveness</td> <td style="text-align: right;">2,000,000</td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td><b>Total government grants</b></td> <td style="text-align: right;"><b>\$ 11,739,099</b></td> </tr> </table>	Federal grant expenditures	\$ 9,162,215	Less: Government cost-reimbursement contract	(851,276)	Employee retention tax credit	1,428,160	PPP loan forgiveness	2,000,000	<hr/>		<b>Total government grants</b>	<b>\$ 11,739,099</b>
Federal grant expenditures	\$ 9,162,215												
Less: Government cost-reimbursement contract	(851,276)												
Employee retention tax credit	1,428,160												
PPP loan forgiveness	2,000,000												
<hr/>													
<b>Total government grants</b>	<b>\$ 11,739,099</b>												

# Easter Seals Serving DC | MD | VA

## Schedule of Findings and Questioned Costs

*For the Year Ended August 31, 2022*

### SECTION I - SUMMARY OF AUDITOR'S RESULTS

#### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  no

Noncompliance material to financial statements noted?  yes  no

#### Federal Awards

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?  yes  no

#### Identification of Major Programs:

<u>Federal Assistance Number</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start Cluster
93.434	Every Student Succeeds Act/ Preschool Development Grant
21.027	Coronavirus State and Local Fiscal Recovery Funds
14.218	Community Development Block Grants (CDBG) – Entitlement Grants Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?  yes  no

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*For the Year Ended August 31, 2022*

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SECTION II - FINANCIAL STATEMENT FINDINGS

**Finding 2022-001: Reportable Finding Considered a Material Weakness - Financial Reporting and Closing Process**

Criteria: The auditee is responsible for establishing and maintaining financial management systems that can provide accurate, current, and complete amounts and disclosures of their financial information as required by U.S. GAAP.

Condition: Adjustments to receivables and revenues were required to present the financial statements in accordance with U.S. GAAP.

Cause: The Organization has been experiencing significant turnover in the accounting and finance department. Internal controls established over the financial accounting closing process were ineffective and failed to identify misstatements relating to revenue recognition in the financial statements. Certain account reconciliations were not performed in a timely manner and were not reviewed by an appropriate level of the finance department resulting in adjustments required to accurately reflect year end balances.

Effect: Material adjustments were required to present the Statement of Financial Position and Statement of Activities and Changes in Net Assets in accordance with U.S. GAAP.

Repeat finding: This is a repeat finding.

Recommendation: We recommend that the procedures over the financial reporting and closing process be reviewed and internal controls strengthened. The current closing checklist should be reviewed and updated if necessary. Established processes should be revised and followed consistently. All account reconciliations should be prepared, variances investigated, and reviewed by an appropriate individual within the Organization.

Management's response and corrective action plan (unaudited): See Appendix A – corrective action plan

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*For the Year Ended August 31, 2022*

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SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

**Finding 2022-002:** Reportable Finding Considered a Material Weakness – Auditee Preparation of the Schedule of Expenditures of Federal Awards

Criteria: The auditee is responsible for establishing and maintaining financial management systems that can provide accurate, current, and complete amounts and disclosures of their financial information as required by U.S. GAAP and the Uniform Guidance.

Condition: Multiple adjustments were required to properly state revenue in the Statement of Activities and Changes in Net Assets and to reconcile the Schedule of Expenditures of Federal Awards to the U.S. GAAP financial statements.

Cause: Internal controls established over the financial accounting closing process failed to identify misstatements in the Schedule of Expenditures of Federal Awards.

Effect: Multiple adjustments were required to reconcile the Schedule of Expenditures of Federal Awards to the U.S. GAAP financial statements.

Repeat finding: This is not a repeat finding.

Recommendation: We recommend that the procedures over the preparation of the Schedule of Expenditures of Federal Awards be reviewed and internal controls strengthened. Federal funding should be identified when the agreement is executed and coded correctly in the general ledger.

Management's response and corrective action plan (unaudited): See Appendix A – corrective action plan

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*For the Year Ended August 31, 2022*

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SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

**Finding 2022-003:** Reportable Finding Considered a Significant Deficiency – Gift and Cash Receipts Acceptance Policy

Criteria: The auditee is responsible for establishing and maintaining financial management systems that can provide accurate, current, and complete amounts and disclosures of their financial information as required by U.S. GAAP and the Uniform Guidance.

Condition: Individuals outside the development department occasionally apply for funding. This information is not always clearly communicated to the finance and the development departments causing the revenue, receivables and cash receipts to be recorded incorrectly.

Cause: Internal controls established over the revenue and the cash receipts process failed to identify several misstatements.

Effect: Adjustments were made to properly classify revenue on the Statement of Activities and Changes in Net Assets and to correct the amount of expenditures reported on the Schedule of Expenditures of Federal Awards.

Repeat finding: This is not a repeat finding.

Recommendation: We recommend that the Organization adopt a gift and cash receipts acceptance policy to ensure revenue and cash receipts are properly coded and recorded in the general ledger. We recommend that the Organization implement a standardized electronic form to be completed for each cash receipt over a specified amount. This form will need to be completed, supporting documentation attached, reviewed and approved, and routed to the responsible parties within the Organization as documentation. Any uncertainties regarding the gift or cash receipt should be resolved and, if necessary, communicated to the funder at the time of the award and documented accordingly.

Management's response and corrective action plan (unaudited): See Appendix A – corrective action plan

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*For the Year Ended August 31, 2022*

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SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Finding 2022-004:** Reportable Finding Considered a Material Weakness - Failure to Meet Matching Requirement

**Program name:** Head Start (Cluster)    **Assistance Listing:** 93.600

**Federal awarding agency:** United States Department of Health and Human Services

**Compliance requirement:** Matching, level of effort, earmarking

Criteria: The grant agreement (03CH010635-04-00 and 03CH010635-05-00) for Head Start requires a non-federal matching of 20% unless a waiver is approved by the agency.

Condition: The Organization did not meet the 20% non-federal match requirement for the year ended August 31, 2022, which includes the budget periods from August 1, 2021 through July 31, 2022 and August 1, 2022 through July 31, 2023.

Context: It was determined that the matching requirement was not met due to not enough volunteer activity as a result of the COVID-19 pandemic. The Organization has requested a waiver from the agency.

Cause: The Organization was not able to meet the non-federal matching contributions due to health department requirements to shut-down the Child Development Centers due to the COVID-19 pandemic. Due to the closures of the centers, there were fewer volunteer hours which the Organization uses to meet the matching requirement.

Effect: The Organization is in violation of the matching requirement stipulated in the grant agreement.

Repeat finding: This is a repeat finding.

Questioned costs: There are no questioned costs associated with this finding.

Recommendation: We recommend that the Organization ensure that the non-federal matching requirements for each federal grant be met every fiscal year or apply for a waiver as soon as it becomes apparent that the match will not be met.

Management's response and corrective action plan (unaudited): See Appendix A – corrective action plan

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*For the Year Ended August 31, 2022*

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SECTION IV – PRIOR YEAR FINANCIAL STATEMENT FINDINGS

**Finding 2021-001:** Reportable Finding Considered a Material Weakness – Financial Reporting and Closing Process

Condition/cause: The auditee is responsible for establishing and maintaining financial management systems that can provide accurate, current, and complete amounts and disclosures of their financial information as required by U.S. GAAP. Adjustments to cash, receivables, accrued expenses, deferred rent, revenues and expenses were required to present the financial statements in accordance with U.S. GAAP. The Organization has been experiencing significant turnover in the accounting and finance department. Internal controls established over the financial accounting closing process were ineffective and failed to identify misstatements in the financial statements. Certain account reconciliations were not performed in a timely manner and were not reviewed by an appropriate level of the finance department resulting in adjustments required to accurately reflect year end balances.

Recommendation: We recommended that the procedures over the financial reporting and closing process be reviewed and internal controls strengthened. The current closing checklist should be reviewed and updated if necessary. Established processes should be revised and followed consistently. All account reconciliations should be prepared, variances investigated, and reviewed by an appropriate individual within the Organization.

Status: Similar issues noted in 2022. Material adjustments were required to present the Statement of Financial Position and Statement of Activities and Changes in Net Assets in accordance with U.S. GAAP. See finding 2022-001.



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*For the Year Ended August 31, 2022*

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**SECTION V – PRIOR YEAR FEDERAL AWARD COMPLIANCE FINDINGS**

**Finding 2021-002:** Reportable Finding Considered a Material Weakness - Failure to Meet Matching Requirement

**Program name:** Head Start (Cluster)                      **Assistance Listing:** 93.600

**Federal awarding agency:** United States Department of Health and Human Services

**Compliance requirement:** Matching, level of effort, earmarking

Condition: The grant agreement for the Head Start program requires a non-federal matching of 20% unless a waiver is approved. The Organization did not meet the 20% non-federal match requirement for the years ended August 31, 2022 and 2021.

Recommendation: We recommended that the Organization ensure that the non-federal matching requirements for each federal grant be met every fiscal year or apply for a waiver as soon as it becomes apparent that the match will not be met.

Status: Similar issue was noted in 2022. The Organization applied for a waiver, but this has not been approved by the federal government for the matching requirement. See finding 2022-004.



**Corrective Action Plan  
2 CFR § 200.511(c)  
August 31, 2022**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2022-001 2021-001	See Narrative Below	Ongoing; anticipated completion of systems/business process optimization project in Fiscal Year 2024	Mariam Aslam

As noted in the FY 2022 audit report, the organization’s financial reporting and closing process was adversely impacted by staffing shortages. Throughout the first half of the most recent fiscal year (ended August 31, 2022), several critical positions on our accounting team remained vacant for extended periods of time, as we either struggled to attract qualified candidates, or cycled through a series of short-term, ill-advised replacements.

As of the date of the FY 2022 audit report, all vacant positions on the accounting team have been filled. Consequently, management believes that it now has sufficient capacity to address the deficiencies observed in the most recent audit report that specifically relate to Financial Reporting and Closing.

In recent years, Easter Seals DC | MD | VA has embarked on many new and ambitious organizational initiatives, including those supported by government grants/contracts. This expanded mandate has presented additional opportunities for our organization to increase its impact on the communities we serve.

However, as a result, the overall business complexity of Easter Seals DC | MD | VA has significantly increased over a short period of time. From a bookkeeping perspective, this made it somewhat more challenging for our accounting team to close the books each month in a timely manner, generate accurate financial reports, and maintain effective internal controls.

Management is confident the creation and adoption of an organizational cash receipts and gifts acceptance policy is a critical element to address recent challenges related to accurate revenue recordation. Consequently, organization-wide compliance with a standardized approach to cash receipts/gift acceptance, which includes a mechanism for the inclusion of essential supporting documentation, is an immediate priority. Likewise, the organization’s Controller and Chief Financial Officer will conduct a detailed review of procedures and policies related the financial reporting process, monthly closing checklist, and internal controls, and amend where necessary.

The organization also recognizes that incremental investments in accounting systems and related business processes are required to support not only the organization’s current needs, but also its anticipated future growth. Ensuring that the financial information generated from each of our programs is consistently posted to, and easily extracted from, the general ledger, is a specific area of focus.

At the end of the last fiscal year (FY 2022), we began a comprehensive assessment of our current general ledger accounting system (and related sub-systems) to determine whether we were utilizing

an optimal platform to meet the bookkeeping needs of our expanding business. As part of this exercise, the organization's critical business processes (including financial reporting and monthly close procedures) and current accounting system, were discussed in detail with a several, external pro bono consultants.

Given the extent of the audit deficiencies cited, and outdated accounting practices/systems currently employed, it was determined that the scope of the projects required to address the observed shortcomings (either individually or collectively) was likely more extensive than originally anticipated by management. Likewise, it was also communicated that the timeframe to implement all facets of this optimization project is likely much longer than originally projected.

The organization is planning a systems-related optimization project that not only addresses all of the audit-related deficiencies associated with the fundamental accounting function (i.e., financial reporting, monthly closing, other business processes, accounting system and sub-systems), but also creates a scalable and integrated financial platform that facilitates the incorporation of future programmatic initiatives.

Specifically, we plan to undertake a comprehensive engagement with two primary objectives:

- Implementation of automated/formalized business processes that incorporates an application programming interface (API) to automate data exchange and reduce the manual nature of our bookkeeping; and
- Evaluation/migration of our accounting system (including sub-systems used by several of our programs) to a unified platform that is better suited for the unique needs of our organization.

We recently prepared a detailed "Plain English" Statement of Objectives that outlines the scope of the project and will form the basis of any potential engagement. This initial step lays the ground work for the entire financial optimization project and needs to occur before the detailed system requirements/process mapping process.

The Statement of Objectives has been vetted/reviewed by senior leadership at a number of leading consulting firms, as well as our auditors, to ensure the goals of the systems-related project are sufficiently comprehensive and clearly articulated. While it's unclear if any pro bono resources will be made available to us for this project, we believe the organization's FY 2023 budget includes sufficient funding to commence the preliminary stage of this engagement.

Given the lead time in evaluating and deploying enterprise level accounting systems, we do not anticipate all of the required systems-related changes will be fully implemented until fiscal year 2024.



**Corrective Action Plan  
2 CFR § 200.511(c)  
August 31, 2022**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2022-002	See Narrative Below	August 31, 2023	Mariam Aslam

The preparation of the Fiscal Year 2022 Schedule of Expenditures of Federal Awards (SEFA) was particularly challenging. The organization’s lack of a formal gift and cash receipts acceptance policy, as noted in Finding 2022-003, and inconsistent communication of awards and supporting documentation by multiple departments, resulted in improper recordation and attribution of several grants awards. These circumstances were the primary contributing factors to the difficulties experienced during the preparation of the Fiscal Year 2022 SEFA.

Specifically, there were several grant awards that on the initial SEFA prepared by our accounting team that didn’t belong (i.e., grants that weren’t sourced from Federal money, but rather other/state funds). Likewise, there were several instances in which grant awards that should have been included on the SEFA, were inadvertently omitted; unbeknownst to the rest of the organization, our programs teams took the initiative to directly apply for, and were subsequently receive, several relatively small Covid-related awards in which the underlying documentation was never forwarded, and the source of funds was not accurately communicated.

Finally, the organization had trouble locating fully executed grant-related documentation across multiple departments throughout the entire audit process. There were also multiple instances of Federal awards/grant agreements with one or no signature(s).

The organization’s process for communicating grant awards, and forwarding supporting documentation, clearly needs to be addressed so that the revenue for each award (including that which belongs, or doesn’t belong, on the SEFA) can be properly recorded/attributed, and all grant-related compliance- and reporting-requirements stipulated by the funder are followed.

The organization believes the adoption of, and compliance with, a comprehensive gift and cash receipts acceptance policy by all departments and programs within the organization will facilitate the accurate preparation of the SFEA schedule in future years. While multiple team members within the organization will assist with the successful development, and ultimate deployment, of a gift and cash receipts policy, the preparation of the SEFA remains the purview of the accounting department. To that end, after the fiscal year has ended, the accounting department will undertake a pre-audit review/reconciliation of all grants received by the organization to ensure that the recordation of revenue for each Federal award is accurate and correctly detailed in the SEFA.



**Corrective Action Plan  
2 CFR § 200.511(c)  
August 31, 2022**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2022-003	See Narrative Below	April 30, 2023	Bradley Freedman

The organization has been relying on a more informal, and inconsistently followed, approach to the sharing of supporting documentation and communication of critical details relates to revenue received. As a result, the accurate recordation of revenue, related receivables, and cash receipts is an area in which the organization can clearly improve. It is our view that a more disciplined cash receipts policy will facilitate not only the accurate preparation of Federal grant revenue on the SFEA schedule, but also the correct classification of all revenue received by the organization.

Per our auditor's recommendation, the organization will develop and deploy a comprehensive gift and cash receipts acceptance policy. This will incorporate any/all required supporting documentation, as well as the requisite workflows to ensure appropriate reviews/ approvals of all incoming funds are obtained.



**Corrective Action Plan  
2 CFR § 200.511(c)  
August 31, 2022**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2022-004 2021-002	See Narrative Below	July 31, 2023	Jevonna Willis

Based on our grant agreement with Head Start, Easter Seals DC | MD | VA is required to provide a 20% contribution of total project costs for each annual budget period, unless a waiver has been requested and approved; any combination of actual cash expended, or in-kind contributions, may be used to meet the matching requirement.

As noted in the audit report, our organization did not meet the 20% non-federal match requirement for the latest program year. Our inability to meet the 20% threshold in fiscal year 2022 was, in part, due to a lack of volunteering activity associated with limited operations/required closures of our Head Start locations throughout the COVID pandemic.

The mandatory annual waivers associated with our organization's 20% non-federal share matching contribution requirement for the first four years (ended July 31, 2019, 2020, 2021, and 2022) of our Prince George's County Head Start Program grant agreement were submitted by the end of the organization's Fiscal Year 2022. Likewise, the annual waiver for the first year (ended June 2022) for our Washington, DC Head Start Program grant agreement was also submitted by the end of Fiscal Year 2022.

The outstanding waiver requests are currently under review by representatives of The Administration of Families and Children, the agency that oversees the Office of Head Start program. While we have maintained a constant dialogue with the Office of Head Start over the last several months, which administers grant funding and oversight, we have yet to receive a formal approval for any of the individual submissions. We are hopeful that response to all five waiver requests submitted will be obtained no later than the end of the current grant year for our Prince George's County Program (July 31, 2023).