# Easterseals of Central and Southeast Ohio, Inc.

**Financial Statements**

Years Ended August 31, 2019 and 2018

(with Independent Auditors' Report)

CLARK SCHAEFER HACKETT

CPAs & ADVISORS

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**INDEPENDENT AUDITORS' REPORT**

The Board of Directors
Easterseals of Central and Southeast Ohio, Inc.:

**Report on the Financial Statements**

We have audited the accompanying financial statements of Easterseals of Central and Southeast Ohio, Inc. (a not-for-profit organization), which comprise the statements of financial position as of August 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Easterseals of Central and Southeast Ohio, Inc. as of August 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Clark, Schaefer, Hackett & Co.*

Columbus, Ohio
January 30, 2020

Easterseals of Central and Southeast Ohio, Inc.
Statements of Financial Position
August 31, 2019 and 2018

| | | 2019 | 2018 |
|---|---|---|---|
| Assets: | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ | 321,291 | 415,055 |
| Accounts receivable, net | | 265,882 | 260,580 |
| Prepaid expenses | | 37,351 | 28,508 |
| Investments at fair value | | 1,964,243 | 1,961,034 |
| Total current assets | | 2,588,767 | 2,665,177 |
| Noncurrent assets: | | | |
| Property and equipment, net | | 2,803,280 | 2,944,638 |
| Mortgage interest swap | | - | 38,428 |
| Other assets | | 360,793 | 349,492 |
| Total noncurrent assets | | 3,164,073 | 3,332,558 |
| Total assets | $ | 5,752,840 | 5,997,735 |
| Liabilities and net assets: | | | |
| Current liabilities: | | | |
| Accounts payable | $ | 46,343 | 42,940 |
| Accrued expenses and employee compensation | | 163,711 | 165,097 |
| Deferred income | | 29,850 | 74,619 |
| Capital lease obligation, current portion | | 17,044 | 19,614 |
| Mortgage payable, current portion | | 80,155 | 63,739 |
| Total current liabilities | | 337,103 | 366,009 |
| Long term liabilities: | | | |
| Liability for pension benefits | | 762,970 | 625,943 |
| Capital lease obligation | | 21,034 | 38,078 |
| Mortgage interest swap | | 60,770 | - |
| Mortgage payable | | 1,411,325 | 1,466,352 |
| Total long term liabilities | | 2,256,099 | 2,130,373 |
| Net assets: | | | |
| Without donor restrictions | | 2,703,236 | 3,037,185 |
| With donor restrictions | | 456,402 | 464,168 |
| Total net assets | | 3,159,638 | 3,501,353 |
| Total liabilities and net assets | $ | 5,752,840 | 5,997,735 |

See accompanying notes to the financial statements.

| | | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|---|
| Revenues, gains and support: | | | | |
| Contributions | $ | 237,719 | - | 237,719 |
| Special events, net of related expenses | | 171,387 | - | 171,387 |
| Program service fees | | 2,769,056 | 73,488 | 2,842,544 |
| Grants and contract revenue | | 1,546,408 | - | 1,546,408 |
| Investment income, net | | 17,507 | - | 17,507 |
| Mortgage interest rate swap (loss) | | (99,198) | - | (99,198) |
| Other | | 61,160 | - | 61,160 |
| Net assets released from restrictions | | 81,254 | (81,254) | - |
| Total revenues, gains and support | | 4,785,293 | (7,766) | 4,777,527 |
| Expenses: | | | | |
| Program expenses: | | | | |
| Public Health Education | | 59,039 | - | 59,039 |
| Early Childhood Education | | 857,887 | - | 857,887 |
| After School | | 363,018 | - | 363,018 |
| Other | | 94,943 | - | 94,943 |
| Adult Day - Ross | | 339,700 | - | 339,700 |
| Adult Day - Knox | | 200,726 | - | 200,726 |
| Adult Day - Lawrence | | 384,484 | - | 384,484 |
| In-Home and Ohio Home Choice | | 1,342,743 | - | 1,342,743 |
| Ombudsman | | 542,547 | - | 542,547 |
| Total program expenses | | 4,185,087 | - | 4,185,087 |
| Supporting expenses: | | | | |
| Management and general | | 493,607 | - | 493,607 |
| Fundraising | | 187,179 | - | 187,179 |
| Total supporting expenses | | 680,786 | - | 680,786 |
| Unallocated payments to to affiliated organizations | | 51,182 | - | 51,182 |
| Total expenses | | 4,917,055 | - | 4,917,055 |
| Pension-related changes other than net periodic pension cost | | (202,187) | - | (202,187) |
| Change in net assets | | (333,949) | (7,766) | (341,715) |
| Net assets at beginning of year | | 3,037,185 | 464,168 | 3,501,353 |
| Net assets at end of year | $ | 2,703,236 | 456,402 | 3,159,638 |

See accompanying notes to the financial statements.

Easterseals of Central and Southeast Ohio, Inc.
Statement of Activities
Year Ended August 31, 2018

| | | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|---|
| Revenues, gains and support: | | | | |
| Contributions | $ | 202,073 | - | 202,073 |
| Special events, net of related expenses | | 153,499 | - | 153,499 |
| Program service fees, net | | 2,735,974 | 88,094 | 2,824,068 |
| Grants and contract revenue | | 1,612,962 | - | 1,612,962 |
| Investment income, net | | 154,342 | - | 154,342 |
| In-kind contributions | | 4,231 | - | 4,231 |
| Mortgage interest rate swap loss | | 70,590 | - | 70,590 |
| Other | | 27,726 | - | 27,726 |
| Net assets released from restrictions | | 128,983 | (128,983) | - |
| Total revenues, gains and support | | 5,090,380 | (40,889) | 5,049,491 |
| Expenses: | | | | |
| Program expenses: | | | | |
| Public Health Education | | 68,224 | - | 68,224 |
| Early Childhood Education | | 873,989 | - | 873,989 |
| After school | | 365,569 | - | 365,569 |
| Other | | 105,115 | - | 105,115 |
| Adult Day - Ross | | 307,796 | - | 307,796 |
| Adult Day - Knox | | 191,282 | - | 191,282 |
| Adult Day - Lawrence | | 383,180 | - | 383,180 |
| In-Home and Ohio Home Choice | | 1,306,744 | - | 1,306,744 |
| Ombudsman | | 621,046 | - | 621,046 |
| Total program expenses | | 4,222,945 | - | 4,222,945 |
| Supporting expenses: | | | | |
| Management and general | | 509,045 | - | 509,045 |
| Fundraising | | 167,929 | - | 167,929 |
| Total supporting expenses | | 676,974 | - | 676,974 |
| Unallocated payments to to affiliated organizations | | 50,189 | - | 50,189 |
| Total expenses | | 4,950,108 | - | 4,950,108 |
| Pension-related changes other than net periodic pension cost | | 171,296 | - | 171,296 |
| Change in net assets | | 311,568 | (40,889) | 270,679 |
| Net assets at beginning of year | | 2,725,617 | 505,057 | 3,230,674 |
| Net assets at end of year | $ | 3,037,185 | 464,168 | 3,501,353 |

See accompanying notes to the financial statements.

| | Public Health Education | Early Childhood Education | After School | Other | Adult Day Ross | Adult Day Knox | Adult Day Lawrence | In-Home Ohio Home Choice | Ombudsman | Management and General | Fund-raising | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Salaries | $ 31,986 | 409,279 | 165,170 | 21,339 | 174,461 | 106,528 | 237,113 | 1,090,539 | 342,250 | 252,869 | 108,524 | 2,940,058 |
| Payroll taxes | 2,536 | 32,946 | 13,371 | 1,660 | 16,649 | 10,354 | 23,902 | 123,773 | 31,016 | 27,330 | 8,397 | 291,934 |
| Employee benefits | 971 | 20,333 | 5,309 | 1,530 | 10,391 | 11,185 | 10,068 | 10,141 | 33,625 | 142,302 | 9,422 | 255,277 |
| Total salaries and benefits | 35,493 | 462,558 | 183,850 | 24,529 | 201,501 | 128,067 | 271,083 | 1,224,453 | 406,891 | 422,501 | 126,343 | 3,487,269 |
| Professional contracts | - | 227,107 | 99,110 | 34,644 | 15,181 | 5,341 | 6,352 | 24,806 | 25,848 | 59,611 | 24,117 | 522,117 |
| Supplies | 629 | 10,320 | 9,426 | 20,755 | 4,357 | 3,237 | 3,814 | 1,864 | 9,837 | 685 | 1,463 | 66,387 |
| Telephone | 562 | 5,445 | 3,769 | 243 | 4,558 | 1,745 | 13,381 | 5,472 | 8,641 | 182 | 1,147 | 45,145 |
| Postage and shipping | 743 | 662 | 378 | 219 | 203 | 105 | 96 | 441 | 948 | 16 | 1,492 | 5,303 |
| Occupancy | 693 | 30,228 | 9,885 | 243 | 18,696 | 33,734 | 34,415 | 1,310 | 11,757 | 1,053 | 2,387 | 144,401 |
| Minor equipment | 292 | 6,908 | 6,139 | 1,182 | 8,982 | 5,019 | 4,761 | 3,248 | 2,786 | 2,139 | 2,361 | 43,817 |
| Local transportation | 860 | 5,718 | 5,105 | 1,610 | 6,253 | 3,277 | 6,165 | 42,842 | 25,070 | 3,853 | 2,332 | 103,085 |
| Conferences and meetings | 1,422 | 3,296 | 1,566 | 708 | 1,145 | 495 | 637 | 3,676 | 1,545 | 729 | 1,269 | 16,488 |
| Printing and publications | 16,364 | 891 | 2,006 | 831 | 1,244 | 389 | 702 | 2,042 | 18,090 | 167 | 1,282 | 44,008 |
| Insurance | - | 14,329 | 9,696 | 4,093 | 4,350 | 2,047 | 1,919 | 8,316 | 8,664 | - | 4,094 | 57,508 |
| Membership fees | 1 | 1,119 | 574 | 393 | 4,293 | 2,756 | 4,298 | 10,897 | 1,353 | 50 | 4,260 | 29,994 |
| Interest | - | 14,603 | 7,040 | 4,174 | 26,115 | 2,087 | 2,435 | 8,478 | 5,216 | - | 4,173 | 74,321 |
| Miscellaneous | 311 | 1,979 | 1,488 | 734 | 1,019 | 454 | 2,533 | 1,747 | 890 | 86 | 4,716 | 15,957 |
| Subtotal | 57,370 | 785,163 | 340,032 | 94,358 | 297,897 | 188,753 | 352,591 | 1,339,592 | 527,536 | 491,072 | 181,436 | 4,655,800 |
| Depreciation | 1,669 | 72,724 | 22,986 | 585 | 41,803 | 11,973 | 31,893 | 3,151 | 15,011 | 2,535 | 5,743 | 210,073 |
| Total expenses | $ 59,039 | 857,887 | 363,018 | 94,943 | 339,700 | 200,726 | 384,484 | 1,342,743 | 542,547 | 493,607 | 187,179 | 4,865,873 |
| Percent of total expenses | 1.2% | 17.6% | 7.5% | 2.0% | 7.0% | 4.1% | 7.9% | 27.6% | 11.2% | 10.1% | 3.8% | 100.0% |

See accompanying notes to the financial statements.

Easterseals of Central and Southeast Ohio, Inc.
Statement of Functional Expenses
Year Ended August 31, 2018

| | | Public Health Education | Early Childhood Education | After School | Other | Adult Day Ross | Adult Day Knox | Adult Day Lawrence | In-Home Ohio Home Choice | Ombudsman | Management and General | Fund-raising | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Salaries | $ | 47,493 | 422,739 | 169,836 | 28,061 | 163,004 | 94,792 | 241,539 | 1,033,077 | 377,650 | 296,060 | 101,433 | 2,975,684 |
| Payroll taxes | | 3,382 | 33,505 | 14,202 | 2,182 | 15,844 | 10,072 | 24,963 | 114,298 | 28,949 | 25,081 | 7,621 | 280,099 |
| Employee benefits | | 5,262 | 18,720 | 3,288 | 1,547 | 1,442 | 9,450 | 8,856 | 30,854 | 44,434 | 152,149 | 6,328 | 282,330 |
| Total salaries and benefits | | 56,137 | 474,964 | 187,326 | 31,790 | 180,290 | 114,314 | 275,358 | 1,178,229 | 451,033 | 473,290 | 115,382 | 3,538,113 |
| Professional contracts | | - | 214,574 | 92,938 | 31,975 | 12,294 | 6,529 | 3,985 | 31,990 | 20,336 | 24,795 | 13,745 | 453,161 |
| Supplies | | 410 | 12,930 | 10,003 | 21,962 | 6,626 | 4,126 | 6,066 | 2,792 | 7,625 | 356 | 850 | 73,746 |
| Telephone | | 710 | 5,226 | 3,638 | 257 | 4,303 | 1,451 | 15,601 | 5,711 | 8,561 | 629 | 1,155 | 47,242 |
| Postage and shipping | | 225 | 664 | 540 | 594 | 350 | 173 | 125 | 847 | 1,072 | 1 | 279 | 4,870 |
| Occupancy | | 727 | 32,161 | 10,698 | 464 | 17,481 | 32,185 | 40,253 | 1,916 | 13,623 | 1,105 | 2,719 | 153,332 |
| Minor equipment | | 1,003 | 6,254 | 3,160 | 859 | 8,900 | 3,818 | 4,740 | 2,809 | 16,488 | 2,013 | 1,051 | 51,095 |
| Local transportation | | 1,227 | 5,999 | 4,627 | 1,551 | 4,052 | 3,238 | 4,005 | 37,255 | 32,155 | 3,215 | 4,642 | 101,966 |
| Conferences and meetings | | 509 | 3,394 | 822 | 552 | 849 | 563 | 300 | 2,675 | 5,802 | 441 | 1,858 | 17,765 |
| Printing and publications | | 4,937 | 484 | 502 | 2,168 | 422 | 389 | 297 | 991 | 27,187 | 53 | 2,145 | 39,575 |
| Insurance | | 13 | 12,587 | 11,421 | 4,818 | 5,120 | 2,410 | 2,258 | 14,614 | 11,013 | 20 | 4,857 | 69,131 |
| Membership fees | | 2 | 4,550 | 3,542 | 1,539 | 1,933 | 1,025 | 1,201 | 5,501 | 3,243 | 54 | 5,138 | 27,728 |
| Interest | | - | 11,054 | 7,461 | 4,421 | 21,173 | 2,211 | 2,686 | 13,402 | 5,527 | 1 | 4,421 | 72,357 |
| Miscellaneous | | 359 | 2,998 | 1,854 | 1,215 | 1,437 | 733 | 471 | 3,755 | 1,748 | 89 | 2,644 | 17,303 |
| Subtotal | | 66,259 | 787,839 | 338,532 | 104,165 | 265,230 | 173,165 | 357,346 | 1,302,487 | 605,413 | 506,062 | 160,886 | 4,667,384 |
| Depreciation | | 1,965 | 86,150 | 27,037 | 950 | 42,566 | 18,117 | 25,834 | 4,257 | 15,633 | 2,983 | 7,043 | 232,535 |
| Total expenses | $ | 68,224 | 873,989 | 365,569 | 105,115 | 307,796 | 191,282 | 383,180 | 1,306,744 | 621,046 | 509,045 | 167,929 | 4,899,919 |
| Percent of total expenses | | 1.4% | 17.8% | 7.5% | 2.1% | 6.3% | 3.9% | 7.8% | 26.7% | 12.7% | 10.4% | 3.4% | 100.0% |

See accompanying notes to the financial statements.

Easterseals of Central and Southeast Ohio, Inc.
Statements of Cash Flows
Years Ended August 31, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ (341,715) | 270,679 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | | |
| Depreciation | 210,073 | 232,535 |
| Cash surrender value of life insurance | 8,242 | 8,192 |
| Realized and unrealized (gain) loss on investments | 50,619 | (92,275) |
| Realized and unrealized gain and reinvested interest and dividends on beneficial interest in assets held by others | (2,899) | (3,162) |
| Pension-related other than periodic pension cost | 202,187 | (171,296) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (5,302) | 95,456 |
| Other assets | (25,487) | (24,891) |
| Accounts payable | 3,403 | (8,234) |
| Accrued expenses | (1,386) | 8,365 |
| Deferred revenue | (44,769) | 45,684 |
| Liability for pension benefit | (65,160) | (13,241) |
| Total adjustment | 329,521 | 77,133 |
| Net cash flows from operating activities | (12,194) | 347,812 |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments | 450,092 | 254,478 |
| Purchase of investments | (503,920) | (302,589) |
| Acquisition of property and equipment | (68,715) | (10,291) |
| Net cash flows from investing activities | (122,543) | (58,402) |
| Cash flows from financing activities: | | |
| Payments on long-term debt | (38,611) | (60,909) |
| Loss (gain) on interest rate swap | 99,198 | (70,590) |
| Payments on capital leases | (19,614) | (30,037) |
| Net cash flows from financing activities | 40,973 | (161,536) |
| Net change in cash and cash equivalents | (93,764) | 127,874 |
| Cash and cash equivalents at beginning of year | 415,055 | 287,181 |
| Cash and cash equivalents at end of year | $ 321,291 | 415,055 |
| Supplemental Disclosure: | | |
| Interest paid | $ 74,321 | 72,357 |

See accompanying notes to the financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following accounting principles and practices of Easterseals of Central and Southeast Ohio, Inc. (the Entity) are set forth to facilitate the understanding of data presented in the financial statements.

**Nature of activities**
Easterseals of Central and Southeast Ohio, Inc. (the Organization) is a not-for-profit corporation established to provide education and rehabilitative services to individuals with disabilities in the Central and Southeast Ohio area. The Organization is exempt from federal income tax under the provisions of Sections 501(c)(3) of the Internal Revenue Code (IRC). The organization is a local affiliate of Easterseals, Inc.

**Adoption of new accounting standard**
During 2019, the Organization adopted Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The standard addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about investment return and functional expenses, including allocation methodologies. The Organization has adjusted the presentation of these financial statements accordingly.

**Basis of accounting**
The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

**Financial statement presentation**
The Organization reports information regarding its financial position and activities in two classes of net assets: net assets without donor restrictions which have no donor-imposed restrictions and net assets with donor restrictions which are subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will likely be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. See Note 9 for the Organization's net assets that must be maintained in perpetuity as of December 31, 2019 and 2018.

**Estimates**
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Income taxes**
The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code), except for income derived from unrelated business activities, as defined in the Code.

**Cash and cash equivalents**
Cash and cash equivalents are defined as cash and investments with original maturities of three months or less at time of purchase.

**Investments**
Investments are stated at fair value and realized and unrealized gains and losses are reflected in the statements of activities net of investment expenses. See Note 4 for discussion of fair value measurements.

**Accounts receivable**
Certain receivable of the Organization are due from third-party payers, including Medicaid. Management estimates an allowance for doubtful accounts. The estimate is based upon management's review of delinquent accounts and an assessment of the Organization's historical evidence of collections. No bad debt expense was recognized for the years ended August 31, 2019 and 2018, as a result of this estimate.

**Unconditional Promises to Give**
Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Conditional promises to give are not included as support until such time as the conditions are substantially met

**Property and equipment**
Property and equipment of $1,000 or more are recorded at cost. Depreciation is computed on the straight-line method over estimated useful lives of the assets, which range from three to thirty years. Repairs and maintenance that do not extend the lives of the applicable assets are charged to expense as incurred. Dispositions of property and equipment are accounted for as reductions of the capitalized costs and related accumulated depreciation. Any resulting gain or loss is reflected in operations. Additionally, the Ohio Department of Aging (ODA), in its role as a pass-through entity for the Department of Health and Human Services, retains reversionary interest in capitalized assets purchased with ODA sourced funds.

**Beneficial Interest in Assets Held by Others**
The Organization is the beneficiary for two funds held at The Columbus Foundation, Inc. The Organization transfers assets to these funds and makes withdrawals as called for by specific program needs. The Organization retains the right to add or remove from these funds from time to time, as necessary. However, The Columbus Foundation has variance power over the funds and reserves the right to redirect the use of the transferred assets to another beneficiary. In accordance with guidance related to charitable trusts that raise or hold contributions for others, the Organization has recognized an asset for the fair value of the funds. The fair value is generally equivalent to the present value of the future payments expected to be received by the Organization from the funds.

**Cash Surrender Value of Life Insurance**
The Organization has received various life insurance policies donated by individuals from time to time. The Organization is both owner and beneficiary of the policies with annual premium payments required from the insured. In the event of default by the insured, the Organization, at its option, may continue premium payments. There are no donor stipulations on the use of proceeds that may come from these policies, either at the donor's death or through redemption of cash surrender values. There were ten policies in force during 2019 and 2018 with an aggregate face value of $461,503 and $459,337, respectively. The policies had an aggregate cash surrender value of $249,455 and $241,213 at August 31, 2019 and 2018, respectively.

**In-kind contributions**
The Organization records in-kind services as revenue in the financial statements at their estimated value. In-kind services are not recorded if no objective basis is available to measure the value received by the Organization.

**Functional expense allocation**
The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among benefited programs and supporting services. All fundraising costs are charged to fundraising; there are no joint costs.

**Advertising costs**
Advertising costs are expensed as incurred.

**Subsequent events**
The Organization evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through January 30, 2020, the date on which the financial statements were available to be issued.

The Organization entered into a lease agreement on September 17, 2019 to open a new location in Scioto County, Ohio. This location will provide education and rehabilitation services to individuals with disabilities.

During fiscal year 2019, the Board for the Organization approved to terminate the frozen defined benefit pension plan. The Organization has obtained a tentative financing approval letter from First Financial Bank for an estimated amount of $700,000 to fund the pension plan at termination. The financing letter provides a variable and fixed rate option. The Organization sent Notice of Intent to Terminate letters to pension plan participants on October 30, 2019. The Organization anticipates finalizing the termination process and financing during fiscal year 2020.

## 2. RELATED PARTY TRANSACTIONS:

The Organization incurred $51,182 and $50,189 of costs associated with its national affiliate Easterseals, Inc. and other regional Easterseals organizations for the years ended August 31, 2019 and 2018, respectively.

During 2018, the Organization has an agreement with three Easterseals affiliates within Ohio for the joint services of a government relations and advocacy consultant. Focused Capital Solutions LLC has been engaged to fulfil these responsibilities. Each affiliate will be billed monthly by the Organization for services provided by the Focused Capitol Solutions, respectively. At August 31, 2019 and 2018, $7,765 and $14,625 was due to the Organization from the affiliates, respectively.

## 3. INVESTMENTS:

The Organization records its investments at fair market value in accordance with the Financial Accounting Standards Board (FASB) guidance on fair value measurements. Investments by type consist of the following at August 31:

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | Cost | Market Value | Cost | Market Value |
| Cash and Cash Equivalents | $ | 317,854 | 317,855 | 139,343 | 139,343 |
| Fixed Income | | 788,896 | 783,902 | 867,497 | 817,105 |
| Equity | | 656,641 | 823,708 | 766,846 | 1,004,586 |
| Real Estate Investments | | 40,352 | 38,778 | - | - |
| | $ | 1,803,743 | 1,964,243 | 1,773,686 | 1,961,034 |

## 4. FAIR VALUE MEASUREMENTS:

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. Investments in debt securities are valued based on observable inputs including, but not limited to time to maturity, effective and current interest rates and principal amount. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access.

- Level 2 inputs (other than quoted prices included within level 1) are observable for the asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following is a description of the Organization's valuation methodologies used to measure and disclose the fair values of its financial assets and liabilities on a recurring or nonrecurring basis:

*Mutual Funds*: Valued at the NAV of shares at year-end.

*Common Stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.

*Fixed Income*: Valued at the closing price reported on the active market on which the individual securities are traded.

*Beneficial Interest in Net Assets Held by Others*: Valued based upon the Organization's proportional share of the underlying assets and is valued on a recurring basis. However, because there is not currently an active market to observe quoted prices for beneficial interest in net assets held by others, the assets are considered to be valued using unobservable inputs and are therefore considered to be Level 3 assets.

*Interest Rate Swap:* Valued based on prevailing market data and derived from proprietary models based on well recognized financial principles and reasonable estimates about relevant future market conditions.

The following table presents the Organization's fair value hierarchy for those assets and liabilities measured at fair value as of August 31:

| | | 2019 | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | | |
| Cash & Cash Equivalents | $ | 317,855 | - | - | 317,855 |
| Fixed Income | | 783,902 | - | - | 783,902 |
| Equity | | 823,708 | - | - | 823,708 |
| Real Estate Investments | | 38,778 | - | - | 38,778 |
| Total Investments | | 1,964,243 | - | - | 1,964,243 |
| Beneficial Interest Held by others | | - | - | 71,407 | 71,407 |
| Total assets at fair value | $ | 1,964,243 | - | 71,407 | 2,035,650 |
| **Liabilities** | | | | | |
| Interest rate swaps | $ | - | 60,770 | - | 60,770 |

| | | 2018 | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | | |
| Cash & Cash Equivalents | $ | 139,343 | - | - | 139,343 |
| Fixed Income | | 817,105 | - | - | 817,105 |
| Equity | | 1,004,586 | - | - | 1,004,586 |
| Total Investments | | 1,961,034 | - | - | 1,961,034 |
| Interest rate swaps | | - | 38,428 | - | - |
| Beneficial Interest Held by others | | - | - | 68,508 | 68,508 |
| Total assets at fair value | $ | 1,961,034 | 38,428 | 68,508 | 2,029,542 |

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets and liabilities for the years ended August 31:

| | | 2019 | 2018 |
|---|---|---|---|
| Beginning Balance | $ | 68,508 | 65,346 |
| Unrealized gain | | 2,899 | 3,162 |
| Ending balance | $ | 71,407 | 68,508 |

**5. PROPERTY AND EQUIPMENT:**

Property and equipment consist of the following at June 30:

| | | 2019 | 2018 |
|---|---|---|---|
| Land | $ | 618,288 | 618,288 |
| Building | | 3,187,520 | 3,157,706 |
| Equipment | | 604,781 | 604,781 |
| Automobiles | | 159,775 | 159,775 |
| Leasehold Improvements | | 75,203 | 36,303 |
| | | 4,645,567 | 4,576,853 |
| Less accumulated depreciation | | (1,842,287) | (1,632,215) |
| | $ | 2,803,280 | 2,944,638 |

**6. PENSION PLAN:**

The Organization participates in a defined benefit pension plan administered by Easterseals, Inc., the national affiliate. Benefits are based upon years of service and the employee's compensation for the highest five years during the last ten years of employment. Assets of the plan consist of mutual funds. The Organization's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA). Effective May 31, 2003, the Organization froze its pension plan for all employees. Accordingly, employees hired after May 31, 2003 are not eligible to participate. No additional benefits accrue to employees who were participants in the plan at May 31, 2003 based on services provided after that date. In addition, employees who had already retired under the plan, or who are beneficiaries of a deceased participant, will continue to receive current benefits without any changes. The Organization contributed $192,765 and $147,000 to the pension plan for the years ended August 31, 2019 and 2018, respectively.

The Organization follows FASB guidance, which requires that the Organization recognize all obligations related to the defined benefit pension plan and quantify the plan's funding status as an asset or a liability on the Statement of Financial Position.

FASB guidance requires that the Organization measure the plan's assets and obligations that determine its funded status as of the end of the fiscal year. The Organization is also required to recognize the changes in funded status that occurred during the year that are not recognized as part of the net periodic benefit cost, as explained in FASB guidance related to Employers' Accounting for Pensions.

The following table provides a reconciliation of the changes in the plan's benefit obligations at August 31:

| | | 2019 | 2018 |
|---|---|---|---|
| Reconciliation of benefit obligation: | | | |
| Benefit obligation at beginning of year | $ | 2,565,546 | 2,667,708 |
| Interest cost | | 100,222 | 96,933 |
| Actuarial cost | | 313,745 | (103,317) |
| Benefits paid | | (133,895) | (95,778) |
| Benefits Obligation at End of Year | $ | 2,845,618 | 2,565,546 |
| Reconciliation of fair value of plan assets: | | | |
| Fair value of plan assets at beginning of year | $ | 1,939,603 | 1,857,228 |
| Actual return on plan assets | | 84,175 | 31,153 |
| Employer contributions | | 192,765 | 147,000 |
| Benefits paid | | (133,895) | (95,778) |
| Fair Value of Plan Assets at End of Year | $ | 2,082,648 | 1,939,603 |
| Funded Status | $ | (762,970) | (625,943) |
| Components of net periodic benefit cost | | | |
| Interest cost | $ | 100,222 | 96,933 |
| Expected return on assets | | (13,776) | (7,990) |
| Recognized net actuarial loss | | 41,159 | 44,816 |
| Net Periodic Cost | $ | 127,605 | 133,759 |

Amounts that have not yet been recognized as a component of net periodic benefit cost include net actuarial loss of $1,525,169.

Weighted average assumptions used in the accounting for the plan are as follows:

| | 2019 | 2018 |
|---|---|---|
| Discount rate used to determine benefit obligation | 2.95% | 4.00% |
| Discount rate used to determine net periodic benefit cos | 2.95% | 4.00% |
| Expected long-term rate of return on assets | 6.25% | 6.00% |

The basis of the long-term rate of return assumption reflects the plan's current target asset mix of approximately 25% equities, 65% fixed-income funds, and 10% other with assumed average annual returns for equity securities and for debt securities. It is assumed that the plan's investment portfolio will be reviewed periodically to maintain the target ratios. Additional consideration is given to the plan's historical returns as well as future long range projections of investment returns.

The pension plan assets consist of an interest in a pension trust. The fair value of the Organization's interest in the pension trust was valued using Level 1 inputs in the fair value hierarchy. The Organization's proportionate share of fair value of the underlying investments, which consist of mutual funds, are all valued based on quoted market prices.

| | Plan Assets | Basis of Fair Value Measurement | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| Equity mutual funds | $ 1,020,879 | 1,020,879 | - | - |
| Fixed-income mutual funds | 1,061,768 | 1,061,768 | - | - |
| | $ 2,082,647 | 2,082,647 | - | - |

The allocation of plan assets by category is as follows at August 31:

| | Target | Percentage of Plan Assets | |
|---|---|---|---|
| | | 2019 | 2018 |
| Equity mutual funds | 25.00% | 54.00% | 54.00% |
| Fixed-income mutual funds | 65.00% | 46.00% | 46.00% |
| Other | 10.00% | 0.00% | 0.00% |
| | 100.00% | 100.00% | 100.00% |

Benefit payments expected to be paid in the future are as follows:

| Year ending August 31 | Amount |
|---|---|
| 2020 | $ 2,845,618 |

**7. LONG-TERM DEBT:**

The Organization entered into a promissory note with a financial institution in May 2012 for a maximum amount of $399,500. Beginning January 2016, interest changed to 3.50% plus the U.S. Treasury 1-year rate for 59 consecutive principal and interest payments of $2,547. In November 2018, this note was refinanced in the amount of $336,000 with an interest rate of 5.2% per annum. On November 14, 2028, all unpaid principal and interest is due in one balloon payment. The Organization's outstanding balances as of August 31, 2019 and 2018 were $317,134 and $307,576, respectively.

The Organization entered into a mortgage agreement with a financial institution in 2010 for $1,600,000. In November 2015, the Organization amended the agreement, extending the maturity date to November 2025 and changing the interest rate to be a floating rate per annum equal to 1.95% in excess of LIBOR (London Interbank Offered Rate). The agreement contains a debt service coverage ratio covenant. The loan is collateralized by the property. The Organization's outstanding balances as of August 31, 2019 and 2018 were $1,174,346 and $1,222,515.

Future principal payments are as follows:

| Year ending August 31 | Amount |
|---|---|
| 2020 | 80,155 |
| 2021 | 81,002 |
| 2022 | 84,776 |
| 2023 | 88,728 |
| 2024 | 92,841 |
| Thereafter | 1,063,978 |
| | 1,491,480 |

**8. NET ASSETS WITH DONOR RESTRICTIONS:**

Net assets with temporary restrictions are available for the following purposes at August 31:

| | | 2019 | 2018 |
|---|---|---|---|
| Program services | $ | 6,136 | 534 |
| Endowment investment return pending board appropriation | | 4,906 | 18,274 |
| | $ | 11,042 | 18,808 |

Aladdin Temple Endowment – In September 1980, the Organization received $445,360 endowment under terms of an agreement with the Aladdin Shriners' Hospital Association for Children, Inc., which is a charitable not-for-profit corporation created and administered by the Officers and Board of Trustees of Aladdin Temple. Under terms of the agreement, the corpus of the fund may be invested but not used by the Organization. All interest and dividend income from the fund is available for the use of the Organization. However, the income is restricted to expenditures relating to the care and treatment of children with disabilities.

The endowment agreement also contains a reverter clause, which would cause the principal fund and undistributed earned income to revert, should the Organization cease to exist, fail to use income properly, or receive sufficient funds from any governmental agency to cover all costs of providing care.

The Organization has interpreted Ohio's enacted 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 stipulation to the contrary. As such, the Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for the expenditure by the entity in a manner consistent with the standard of prudence prescribed by UPMIFA.

The financial goal of the Organization's investment policies is to preserve and enhance investment value while supporting current income needs. The goal is to be achieved over time through the combination of prudent investment management in conjunction with an appropriate spending policy.

In order to meet its needs, the investment strategy of the Organization is to emphasize total return, the aggregate return from capital appreciation and dividend and interest income. The primary objective of the Organization shall be the long-term growth of capital while avoiding excessive risk.

Short-term volatility will be tolerated in as much as it is consistent with the volatility of the comparable market benchmarks.

The asset allocation philosophy is full investment as opposed to market timing. This specific allocation approach is chosen to preserve and enhance the real investment value of the endowment fund over time, minimize the overall portfolio's volatility, and to reflect expected long-term consideration such as liquidity probability, expected cash inflows, and risk tolerances.

The Organization's policy for spending from endowment funds is to reinvest earnings from the endowment funds unless it is needed for operating expenditures. The distribution of income remains at the discretion of the Board of Directors with the direction of the budget process.

In accordance with FASB guidance, absent donor stipulations, the earnings on permanently restricted endowment funds have been reclassified to temporarily restricted net assets until these amounts are appropriated for expenditure.

The following represents the change in donor-restricted endowment funds by net asset type for the year ended August 31, 2019:

| | | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|---|
| **Endowment net assets** | | | | | |
| Beginning of year | $ | - | 18,274 | 445,360 | 463,634 |
| Release of restriction | | - | (35,858) | - | (35,858) |
| Investment income | | - | 22,490 | - | 22,490 |
| End of year | $ | - | 4,906 | 445,360 | 450,266 |

The following represents the change in donor-restricted endowment funds by net asset type for the year ended August 31, 2018:

| | | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|---|
| **Endowment net assets** | | | | | |
| Beginning of year | $ | - | 54,971 | 445,360 | 500,331 |
| Release of restriction | | - | (82,692) | - | (82,692) |
| Investment income | | - | 45,995 | - | 45,995 |
| End of year | $ | - | 18,274 | 445,360 | 463,634 |

## 9. CAPITAL LEASE:

The Organization leases office equipment under capital lease agreements, which expire at various dates through March 2022. The Organization paid $27,855 and $19,633 for the years ending August 31, 2019 and 2018, respectively, for rental and lease fees.

The following is a summary of equipment held under capital lease:

| | | 2019 | 2018 |
|---|---|---|---|
| Equipment | $ | 148,853 | 163,333 |
| Accumulated depreciation | | (121,231) | (109,688) |
| | $ | 27,622 | 53,645 |

Future minimum lease payments for the above-mentioned capital lease agreements are as follows:

| | | |
|---|---|---|
| Year ending August 31 | | |
| 2020 | $ | 16,828 |
| 2021 | | 18,066 |
| 2022 | | 8,503 |
| Total minimum lease payments | | 43,397 |
| Less amount representing interest(*) | | (5,319) |
| Present value of minimum lease payments | $ | 38,078 |

(*) Interest rates vary from 3.96% to 4.86%

## 10. OPERATING LEASE:

In August 2013, the Organization entered into a five-year lease agreement for the Knox County office located at 110 East Vine Street, Mt. Vernon, Ohio. The terms of the lease call for monthly payments of $1,800 for the first year and increase 3% each year for the following four years, ending in August 2018. As of September 2018, the lease is continuing on a month to month basis until a new longer-term lease can be agreed on. In 2018, the Organization entered into a four-year lease agreement for the Lawrence County office. In lieu of monthly rent payments, the Organization will pay for leasehold improvements, property taxes, and a portion of certain maintenance costs.

**11. CONCENTRATIONS:**

The Organization maintains cash balances at three financial institutions. Accounts at each institution are insured by Federal Deposit Insurance Corporation (FDIC) up to $250,000. At August 31, 2019 and 2018, respectively, the Organization had $73,901 and $185,750 in deposits that were not insured.

**12. DERIVATIVE FINANCIAL INSTRUMENT:**

At November 4, 2015, the Organization amended a promissory note of $1,346,294 of variable interest debt outstanding in order to extend the maturity date and change the interest rate to a floating rate per annum equal to 1.95% in excess of LIBOR (London Interbank Offered Rate). The interest rate is adjusted automatically on the fifteenth day of each calendar month.

The Organization simultaneously entered into an interest rate swap for a notional amount of $1,346,294 at a fixed rate of 4.15%.

The Organization is using the interest rate swap to manage the interest rate exposure of its variable rate debt. The swap is recorded at fair value, which is the estimated amount that the Organization would receive or pay to terminate the agreement, taking into account current interest rates and the current credit-worthiness of the swap counterparty. Changes in the swap's fair value during the year ended August 31, 2019 and 2018 resulted in unrealized (loss) / gain of ($99,198) and $70,590, respectively, which is included in unrestricted change in net assets in the statement of activities. The fair value of the swap was a liability of $60,770 and an asset of $38,428 as of August 31, 2019 and 2018, respectively.

**13. LIQUIDITY**

The Organization's goal is to maintain financial assets to meet the ongoing needs of the Organization. As part of its liquidity plan, excess cash is invested in investments.

The following table presents the financial assets available to meet cash needs for general operations within one year of August 31, 2019 and 2018:

| | | 2019 | 2018 |
|---|---|---|---|
| Finanical assets: | | | |
| Cash and cash equivalents | $ | 321,291 | 415,055 |
| Accounts receivable | | 265,882 | 260,580 |
| Investments | | 1,964,243 | 1,961,034 |
| Donor restrictions | | (456,402) | (464,168) |
| Financial assets available to meet cash needs for general expenditures within one year | $ | 2,095,014 | 2,172,501 |