Easterseals Central and Southeast Ohio, Inc.

Financial Statements

Years Ended August 31, 2020 and 2019

(with Independent Auditors' Report)

CLARK SCHAEFER HACKETT

CPAs & Advisors

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CLARK SCHAEFER HACKETT
CPAs & ADVISORS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Easterseals Central and Southeast Ohio, Inc. (a not-for-profit organization), which comprise the statements of financial position as of August 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 Central and Southeast Ohio, Inc. as of August 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Clark, Schaefer, Hackett & Co.

Columbus, Ohio
January 28, 2021

Easterseals Central and Southeast Ohio, Inc.
Statements of Financial Position
August 31, 2020 and 2019

	2020	2019
Assets:		
Current assets:		
Cash and cash equivalents	$ 1,012,524	321,291
Accounts receivable, net	227,253	265,882
Prepaid expenses	24,322	37,351
Investments at fair value	2,152,998	1,964,243
Total current assets	3,417,097	2,588,767
Noncurrent assets:		
Property and equipment, net	2,731,716	2,803,280
Other assets	353,486	360,793
Total noncurrent assets	3,085,202	3,164,073
Total assets	$ 6,502,299	5,752,840
Liabilities and net assets:		
Current liabilities:		
Accounts payable	$ 40,405	46,343
Accrued expenses and employee compensation	174,710	163,711
Deferred income	58,207	29,850
Capital lease obligation, current portion	18,066	17,044
Notes payable, current portion	451,838	-
Mortgage payable, current portion	83,654	80,155
Total current liabilities	826,880	337,103
Long term liabilities:		
Liability for pension benefits	-	762,970
Capital lease obligation	2,969	21,034
Mortgage interest swap	101,937	60,770
Notes payable	936,662	-
Mortgage payable	1,330,323	1,411,325
Total long term liabilities	2,371,891	2,256,099
Net assets:		
Without donor restrictions	2,733,434	2,703,236
With donor restrictions	570,094	456,402
Total net assets	3,303,528	3,159,638
Total liabilities and net assets	$ 6,502,299	5,752,840

See accompanying notes to the financial statements.

Easterseals Central and Southeast Ohio, Inc.
Statement of Activities
Year Ended August 31, 2020

		Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and support:				
Contributions	$	426,851	-	426,851
Special events, net of related expenses		127,320	-	127,320
Program service fees		2,528,773	176,991	2,705,764
Grants and contract revenue		1,619,375	-	1,619,375
Investment income, net		203,211	-	203,211
In-kind contributions		40,000	-	40,000
Mortgage interest rate swap (loss)		(41,167)	-	(41,167)
Other		204,652	-	204,652
Net assets released from restrictions		63,299	(63,299)	-
Total revenues, gains and support		5,172,314	113,692	5,286,006
Expenses:				
Program expenses:				
Public Health Education		73,151	-	73,151
Early Childhood Education		773,524	-	773,524
After School		251,757	-	251,757
Other		64,284	-	64,284
Adult Day - Ross		289,083	-	289,083
Adult Day - Knox		159,580	-	159,580
Adult Day - Lawrence		327,441	-	327,441
Adult Day - Scioto		104,849	-	104,849
In-Home and Ohio Home Choice		1,695,301	-	1,695,301
Ombudsman		654,107	-	654,107
Total program expenses		4,393,077	-	4,393,077
Supporting expenses:				
Management and general		522,365	-	522,365
Fundraising		171,756	-	171,756
Total supporting expenses		694,121	-	694,121
Unallocated payments to to affiliated organizations		54,918	-	54,918
Total expenses		5,142,116	-	5,142,116
Change in net assets		30,198	113,692	143,890
Net assets at beginning of year		2,703,236	456,402	3,159,638
Net assets at end of year	$	2,733,434	570,094	3,303,528

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, net		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.

	Public Health Education	Early Childhood Education	After School	Other	Adult Day Ross	Adult Day Knox	Adult Day Lawrence	Adult Day Scioto	In-Home Ohio Home Choice	Ombudsman	Management and General	Fund-raising	Total
Salaries	$ 38,468	394,857	115,676	7,595	129,029	66,017	184,946	44,989	1,323,218	444,264	280,613	118,057	3,147,729
Payroll taxes	2,995	32,132	10,400	808	12,154	6,936	17,121	4,181	129,191	34,679	22,584	9,151	282,332
Employee benefits	5,224	10,543	1,512	110	8,444	2,853	1,230	671	10,941	35,777	132,070	7,093	216,468
Total salaries and benefits	46,687	437,532	127,588	8,513	149,627	75,806	203,297	49,841	1,463,350	514,720	435,267	134,301	3,646,529
Professional contracts	1,161	183,424	55,003	22,897	11,795	8,305	7,576	3,741	53,473	20,905	63,486	14,745	446,511
Supplies	1,824	8,353	5,890	29,043	6,586	3,250	4,396	2,957	6,082	5,549	1,000	962	75,892
Telephone	760	6,019	4,087	33	5,822	1,788	11,152	1,303	6,782	13,094	328	1,089	52,257
Postage and shipping	274	365	314	120	316	207	233	105	1,411	921	127	626	5,019
Occupancy	685	28,774	9,391	269	18,506	34,323	29,831	25,663	1,848	11,934	1,099	2,200	164,523
Minor equipment	582	9,436	2,620	248	11,086	3,137	5,886	3,975	6,863	6,499	4,033	1,385	55,750
Local transportation	737	3,701	2,807	193	4,905	3,216	4,497	1,974	36,024	20,752	3,498	1,202	83,506
Conferences and meetings	367	2,374	598	189	720	608	660	504	3,719	1,883	1,267	747	13,636
Printing and publications	15,922	1,417	1,454	373	1,644	1,143	1,103	703	6,826	19,737	625	441	51,388
Insurance	515	5,662	6,429	515	4,633	3,088	3,088	2,326	21,620	8,217	2,059	1,029	59,181
Membership fees	321	1,278	470	107	2,905	2,344	3,119	2,638	11,201	2,238	201	2,704	29,526
Interest	495	5,446	3,963	496	20,776	2,974	3,308	1,487	20,816	3,469	1,982	991	66,203
Miscellaneous	1,255	13,987	9,679	1,221	11,002	7,357	9,545	3,672	51,064	8,465	4,882	4,307	126,436
Subtotal	71,585	707,768	230,293	64,217	250,323	147,546	287,691	100,889	1,691,079	638,383	519,854	166,729	4,876,357
Depreciation	1,566	65,756	21,464	67	38,760	12,034	39,750	3,960	4,222	15,724	2,511	5,027	210,841
Total expenses	$ 73,151	773,524	251,757	64,284	289,083	159,580	327,441	104,849	1,695,301	654,107	522,365	171,756	5,087,198
Percent of total expenses	1.4%	15.2%	4.9%	1.3%	5.7%	3.1%	6.4%	2.1%	33.3%	12.9%	10.3%	3.4%	100.0%

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.

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 143,890	(341,715)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	190,660	210,073
Cash surrender value of life insurance	8,582	8,242
Realized and unrealized (gain) loss on investments	142,093	50,619
Realized and unrealized gain and reinvested interest and dividends on beneficial interest in assets held by others	(2,576)	(2,899)
Pension-related other than periodic pension cost	-	202,187
Changes in assets and liabilities:		
Accounts receivable	38,629	(5,302)
Other assets	14,330	(25,487)
Accounts payable	(5,938)	3,403
Accrued expenses	10,999	(1,386)
Deferred revenue	28,357	(44,769)
Liability for pension benefit	(762,970)	(65,160)
Total adjustment	(337,834)	329,521
Net cash flows from operating activities	(193,944)	(12,194)
Cash flows from investing activities:		
Proceeds from sale of investments	49,026	450,092
Purchase of investments	(379,874)	(503,920)
Acquisition of property and equipment	(119,096)	(68,715)
Net cash flows from investing activities	(449,944)	(122,543)
Cash flows from financing activities:		
Payments on long-term debt	(77,503)	(38,611)
Proceeds from notes	1,388,500	-
Loss on interest rate swap	41,167	99,198
Payments on capital leases	(17,043)	(19,614)
Net cash flows from financing activities	1,335,121	40,973
Net change in cash and cash equivalents	691,233	(93,764)
Cash and cash equivalents at beginning of year	321,291	415,055
Cash and cash equivalents at end of year	$ 1,012,524	321,291
Supplemental Disclosure:		
Interest paid	$ 66,203	74,321

See accompanying notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Nature of activities
Easterseals 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.

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, 2020 and 2019.

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, 2020 and 2019, 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 2020 and 2019 with an aggregate face value of $464,061 and $461,503, respectively. The policies had an aggregate cash surrender value of $258,037 and $249,455 at August 31, 2020 and 2019, respectively, and are included in other assets on the statements of financial position.

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 28, 2021, the date on which the financial statements were available to be issued.

2. RELATED PARTY TRANSACTIONS:

The Organization incurred $54,918 and $51,182 of costs associated with its national affiliate Easterseals, Inc. and other regional Easterseals organizations for the years ended August 31, 2020 and 2019, respectively.

During 2018, the Organization has an agreement with two 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, 2020 and 2019, $2,500 and $7,765 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:

		2020		2019	
		Cost	Market Value	Cost	Market Value
Cash and Cash Equivalents	$	186,922	186,922	317,854	317,855
Fixed Income		962,092	972,919	788,896	783,902
Equity		655,584	948,860	656,641	823,708
Real Estate Investments		49,360	44,297	40,352	38,778
	$	1,853,958	2,152,998	1,803,743	1,964,243

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:

	2020			
	Level 1	Level 2	Level 3	Total
Assets				
Cash & Cash Equivalents	$ 186,922	-	-	186,922
Fixed Income	972,919	-	-	972,919
Equity	948,860	-	-	948,860
Real Estate Investments	44,297	-	-	44,297
Total Investments	2,152,998	-	-	2,152,998
Beneficial Interest Held by others	-	-	73,983	73,983
Total assets at fair value	$ 2,152,998	-	73,983	2,226,981
Liabilities				
Interest rate swaps	$ -	101,937	-	101,937

	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

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:

	2020	2019
Beginning Balance	$ 71,407	68,508
Unrealized gain	2,576	2,899
Ending balance	$ 73,983	71,407

5. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following at June 30:

	2020	2019
Land	$ 618,288	618,288
Building	3,198,000	3,187,520
Equipment	615,009	604,781
Automobiles	199,775	159,775
Leasehold Improvements	133,594	75,203
	4,764,666	4,645,567
Less accumulated depreciation	(2,032,950)	(1,842,287)
	$ 2,731,716	2,803,280

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 $89,169 and $192,765 to the pension plan for the years ended August 31, 2020 and 2019, 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 Organization terminated its' defined benefit pension plan during fiscal year ended August 31, 2020. The Organization entered into a promissory note for the remaining benefit obligation (see Note 7).

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

		2020	2019
Reconciliation of benefit obligation:			
Benefit obligation at beginning of year	$	2,845,618	2,565,546
Interest cost		-	100,222
Actuarial cost		-	313,745
Benefits paid		(2,845,618)	(133,895)
Benefits Obligation at End of Year	$	-	2,845,618
Reconciliation of fair value of plan assets:			
Fair value of plan assets at beginning of year	$	1,939,603	1,939,603
Actual return on plan assets		-	84,175
Employer contributions		-	192,765
Benefits paid		(1,939,603)	(133,895)
Fair Value of Plan Assets at End of Year	$	-	2,082,648
Funded Status	$	-	(762,970)
Components of net periodic benefit cost			
Interest cost	$	-	100,222
Expected return on assets		-	(13,776)
Recognized net actuarial loss		-	41,159
Net Periodic Cost	$	-	127,605

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

	2020	2019
Discount rate used to determine benefit obligation	n/a	2.95%
Discount rate used to determine net periodic benefit cost	n/a	2.95%
Expected long-term rate of return on assets	n/a	6.25%

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. There were no plan assets at August 31, 2020.

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

	Target	Percentage of Plan Assets	
		2020	2019
Equity mutual funds	n/a	0.00%	54.00%
Fixed-income mutual funds	n/a	0.00%	46.00%
Other	n/a	0.00%	0.00%
	0.00%	0.00%	100.00%

No benefit payments are expected to be paid in the future.

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, 2020 and 2019 were $289,840 and $316,426, 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, 2020 and 2019 were $1,124,137 and $1,174,346.

On April 13, 2020, the Organization received loan proceeds in the amount of $648,500 under 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 business's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "covered period" (eight or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two or five years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period. The Organization intends to use the PPP loan proceeds for purposes consistent with the PPP and apply for forgiveness within 10 months of the end of the covered period.

To the extent that the Organization is not granted forgiveness, the Organization will be required to pay interest on the PPP loan at a rate of 1% per annum. If the application for forgiveness is not made within 10 months of the end of the covered period, payments of principal and interest will be required through the maturity date of April 13, 2022. The terms of the loan provide for customary events of default, including payment defaults, breach of representation of warranties, and insolvency events. The PPP loan may be accelerated upon the occurrence of a default event.

The Organization has recorded a note payable and will record forgiveness upon being legally released from the loan obligation. No forgiveness income has been recorded for the year ended August 31, 2020. The Organization is required to repay any remaining balance of $648,500, plus interest accrued at 1% per annum in monthly payments beginning on May 13, 2021. Principal and interest payments will be required through the maturity date of April 13, 2022.

The Organization entered into a promissory note with a financial institution in August 2020 for a maximum amount of $740,000 to terminate its' pension plan. Principal and interest payments of $10,030 are due monthly beginning September 2020 and a final payment of $241,596 is due August 2025. The interest rate on the note is 3.75%. The Organization's outstanding balances as of August 31, 2020 was $740,000.

Future principal mortgage payments are as follows:

Year ending August 31		Amount
2021	$	81,002
2022		84,776
2023		88,728
2024		92,841
2025		934,893
Thereafter		131,737
	$	1,413,977

Future principal note payments are as follows:

Year ending August 31		Amount
2021	$	451,838
2022		388,693
2023		101,544
2024		105,418
2025		341,007
	$	1,388,500

8. NET ASSETS WITH DONOR RESTRICTIONS:

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

	2020	2019
Program services	$ 99,693	6,136
Restricted for land, building, equipment	1,520	-
Endowment investment return pending board appropriation	23,521	4,906
	$ 124,734	11,042

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, 2020:

		Donor Restrictions		
	Without Donor Restriction	Temporarily Restricted	Perpetually Restricted	Total
Endowment net assets				
Beginning of year	$ -	4,906	445,360	450,266
Release of restriction	-	(2,517)	-	(2,517)
Investment income	-	21,133	-	21,133
End of year	$ -	23,522	445,360	468,882

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

		Donor Restrictions		
	Without Donor Restriction	Temporarily Restricted	Perpetually 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

9. CAPITAL LEASE:

The Organization leases office equipment under capital lease agreements, which expire at various dates through March 2022. The Organization paid $26,695 and $27,855 for the years ending August 31, 2020 and 2019, respectively, for rental and lease fees.

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

		2020	2019
Equipment	$	148,853	148,853
Accumulated depreciation		(135,902)	(121,231)
	$	12,951	27,622

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

Year ending August 31		
2021	$	18,816
2022		3,007
Total minimum lease payments		21,823
Less amount representing interest(*)		(788)
Present value of minimum lease payments	$	21,035

(*) Interest rates are 4.86%

10. OPERATING LEASES:

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.

In September 2019, the Organization entered into a three-year lease agreement for the Scioto County office located at 3858 US Highway 23, Portsmouth, Ohio. The terms of the lease call for monthly payments of $1,875.

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, 2020 and 2019, respectively, the Organization had $673,051 and $73,901 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, 2020 and 2019 resulted in unrealized (loss) / gain of ($41,167) and ($99,198), 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 $101,937 and $60,770 as of August 31, 2020 and 2019, 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, 2020 and 2019:

		2020	2019
Finanical assets:			
Cash and cash equivalents	$	1,012,524	321,291
Accounts receivable		227,253	265,882
Investments		2,152,998	1,964,243
Donor restrictions		(570,094)	(456,402)
Financial assets available to meet cash needs for general expenditures within one year	$	2,822,681	2,095,014

14. RISKS AND UNCERTANTIES

The extent of the impact of the COVID-19 pandemic on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak. The extent to which the pandemic may impact the Organization's financial condition or results of activities is uncertain at this time.