
EASTER SEALS MIDWEST
FINANCIAL STATEMENTS
JUNE 30, 2020



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Independent Auditors' Report

Board of Directors
Easter Seals Midwest
St. Louis, Missouri

Report On The Financial Statements

We have audited the financial statements of Easter Seals Midwest, a not-for-profit organization, which comprise the statement of financial position as of June 30, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Easter Seals Midwest as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

RubinBrown LLP

November 2, 2020

EASTER SEALS MIDWEST
STATEMENT OF FINANCIAL POSITION

Assets		June 30,	
		2020	2019
Current Assets			
Cash and cash equivalents	\$	1,224,080	\$ 483,854
Accounts receivable (net of allowance for uncollectible accounts of \$386,281 and \$338,548 in 2020 and 2019, respectively)		7,652,561	10,034,448
Pledges receivable (Note 1)		291,899	325,375
Prepaid expenses		15,718	227,895
Total Current Assets		9,184,258	11,071,572
Property, Equipment And Leasehold Improvements (Note 4)			
		6,441,498	6,742,823
Other Assets			
Long-term pledges receivable (Note 1)		17,858	25,298
Security deposits		96,147	82,147
Investments (Note 3)		7,962,102	7,645,849
Total Other Assets		8,076,107	7,753,294
Total Assets	\$	23,701,863	\$ 25,567,689
Liabilities And Net Assets			
Current Liabilities			
Lines of credit (Note 5)	\$	—	\$ 2,188,375
Current maturities of long-term debt (Note 6)		490,277	517,699
Accounts payable		1,391,728	1,185,932
Accrued salaries and related expenses (Note 13)		3,184,530	4,992,021
Accrued expenses and other liabilities		89,496	14,401
Total Current Liabilities		5,156,031	8,898,428
Long-Term Debt (Note 6)		4,956,458	5,489,601
Total Liabilities		10,112,489	14,388,029
Net Assets			
Without Donor Restrictions			
Operations		4,852,797	2,987,592
Investment in property, equipment and leasehold improvements, net of related debt		994,763	735,523
Board designated endowment (Note 7)		3,241,809	3,042,717
Total Without Donor Restrictions		9,089,369	6,765,832
With Donor Restrictions (Note 8)		4,500,005	4,413,828
Total Net Assets		13,589,374	11,179,660
Total Liabilities And Net Assets	\$	23,701,863	\$ 25,567,689

EASTER SEALS MIDWEST

STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues			
Program service revenue (Note 10)	\$ 70,485,284	\$ —	\$ 70,485,284
Contributions and grants	640,794	347,409	988,203
Special events	794,229	—	794,229
Net assets released from restrictions (Note 8)	349,136	(349,136)	—
Miscellaneous income	56,089	—	56,089
Total Operating Revenues	72,325,532	(1,727)	72,323,805
Functional Expenses			
Program services	61,809,643	—	61,809,643
Management and general	7,607,622	—	7,607,622
Special events	231,288	—	231,288
Fund development	592,794	—	592,794
Total Functional Expenses	70,241,347	—	70,241,347
Surplus (Deficiency) Of Operating Revenues Over Functional Expenses	2,084,185	(1,727)	2,082,458
Other Revenues And Support			
Endowment capital campaign	—	8,134	8,134
Investment income	239,352	79,770	319,122
Total Other Revenues And Support	239,352	87,904	327,256
Increase In Net Assets	2,323,537	86,177	2,409,714
Net Assets - Beginning Of Year	6,765,832	4,413,828	11,179,660
Net Assets - End Of Year	\$ 9,089,369	\$ 4,500,005	\$ 13,589,374

EASTER SEALS MIDWEST

STATEMENT OF ACTIVITIES For The Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues			
Program service revenue (Note 10)	\$ 68,067,401	\$ —	\$ 68,067,401
Contributions and grants	749,377	365,479	1,114,856
Investment return designated for current operations per spending policy	274,000	—	274,000
Special events	808,633	—	808,633
Net assets released from restrictions (Note 8)	493,149	(493,149)	—
Miscellaneous income	78,333	—	78,333
Total Operating Revenues	70,470,893	(127,670)	70,343,223
Functional Expenses			
Program services	63,285,075	—	63,285,075
Management and general	7,122,029	—	7,122,029
Special events	212,691	—	212,691
Fund development	733,499	—	733,499
Total Functional Expenses	71,353,294	—	71,353,294
Deficiency Of Operating Revenues Over Functional Expenses	(882,401)	(127,670)	(1,010,071)
Other Revenues And Support			
Endowment capital campaign	—	21,381	21,381
Investment income (loss), net of spending policy	(53,801)	80,005	26,204
Capital grant revenue	50,000	—	50,000
Gain on sale of fixed assets	6,339	—	6,339
Rental income	8,967	—	8,967
Total Other Revenues And Support	11,505	101,386	112,891
Decrease In Net Assets	(870,896)	(26,284)	(897,180)
Net Assets - Beginning Of Year	7,636,728	4,440,112	12,076,840
Net Assets - End Of Year	\$ 6,765,832	\$ 4,413,828	\$ 11,179,660

EASTER SEALS MIDWEST

STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended June 30, 2020

	Program	Management And General	Fund Development	Total Expenses
Salaries	\$ 44,748,530	\$ 4,291,371	\$ 347,596	\$ 49,387,497
Payroll taxes	3,058,115	291,983	24,814	3,374,912
Employee benefits	5,203,835	486,387	28,830	5,719,052
Worker's compensation	984,727	109,017	8,823	1,102,567
Total Salaries And Related Expenses	53,995,207	5,178,758	410,063	59,584,028
Accreditation fees	—	11,690	—	11,690
Advertising and printing	5,522	5,422	8,089	19,033
Audit	—	54,114	—	54,114
Auto expense	1,092,634	29,339	—	1,121,973
Bad debt expense	514,260	—	26,427	540,687
Board and volunteer expense	19	7,181	6,927	14,127
Client assistance	1,221,577	—	—	1,221,577
Conferences and dues	26,488	154,063	1,500	182,051
Emergency plan expense	189,255	20,283	—	209,538
Employee costs	12,905	174,556	657	188,118
Equipment	73,477	73,672	1,660	148,809
Facility costs	197,891	66,264	7,668	271,823
Insurance	273,626	59,632	5,077	338,335
Interest and bank fees	130,971	231,280	36,249	398,500
Legal	—	32,098	—	32,098
Marketing expense	205	73,880	—	74,085
Miscellaneous	572	—	1,632	2,204
Office supplies	40,698	35,896	1,428	78,022
Outside services	253,893	178,788	4,963	437,644
Postage and shipping	32,070	9,076	2,524	43,670
Program supplies	190,301	28,123	5,011	223,435
Record storage	—	13,952	—	13,952
Rent	1,095,663	—	—	1,095,663
Software	152,795	849,397	32,147	1,034,339
Special event expense	—	—	231,288	231,288
Staff mileage	1,066,241	8,567	2,357	1,077,165
Staff training	24,685	897	60	25,642
Telephone	545,581	41,822	3,191	590,594
Travel and entertainment	42,019	92,865	5,453	140,337
Utilities	127,622	38,604	9,162	175,388
Total Other Direct Expenses	7,310,970	2,291,461	393,470	9,995,901
Total Functional Expenses Before Depreciation And Amortization	61,306,177	7,470,219	803,533	69,579,929
Depreciation And Amortization	503,466	137,403	20,549	661,418
Total Operational Expenses	\$ 61,809,643	\$ 7,607,622	\$ 824,082	\$ 70,241,347

EASTER SEALS MIDWEST

STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended June 30, 2019

	Program	Management And General	Fund Development	Total Expenses
Salaries	\$ 46,354,574	\$ 3,879,840	\$ 329,035	\$ 50,563,449
Payroll taxes	3,580,982	280,768	24,587	3,886,337
Employee benefits	4,932,439	456,066	26,908	5,415,413
Worker's compensation	979,554	99,378	8,355	1,087,287
Total Salaries And Related Expenses	55,847,549	4,716,052	388,885	60,952,486
Accreditation fees	—	11,690	—	11,690
Advertising and printing	4,769	8,031	11,074	23,874
Audit	—	55,055	—	55,055
Auto expense	901,347	5,158	—	906,505
Bad debt expense	217,626	—	171,889	389,515
Board and volunteer expense	10	4,398	8,586	12,994
Client assistance	847,801	—	—	847,801
Conferences and dues	36,010	122,750	2,320	161,080
Employee costs	22,422	215,399	298	238,119
Equipment	75,485	99,049	1,753	176,287
Facility costs	191,969	2,580	—	194,549
Insurance	227,547	57,062	5,844	290,453
Interest and bank fees	10,429	207,920	10,794	229,143
Legal	—	43,052	—	43,052
Marketing expense	3,140	85,051	990	89,181
Miscellaneous	2,472	829	9,630	12,931
Office supplies	74,876	40,537	2,835	118,248
Outside services	268,995	85,507	4,611	359,113
Postage and shipping	23,415	6,478	5,617	35,510
Program supplies	196,204	35,766	9,523	241,493
Record storage	—	15,160	—	15,160
Rent	1,359,222	121,303	18,126	1,498,651
Software	114,327	651,718	37,115	803,160
Special event expense	—	—	212,691	212,691
Staff mileage	1,529,982	14,864	2,184	1,547,030
Staff training	8,174	501	145	8,820
Telephone	593,339	59,082	4,445	656,866
Travel and entertainment	101,983	154,838	15,627	272,448
Utilities	151,790	122,102	7,558	281,450
Total Other Direct Expenses	6,963,334	2,225,880	543,655	9,732,869
Total Functional Expenses Before Depreciation And Amortization	62,810,883	6,941,932	932,540	70,685,355
Depreciation And Amortization	474,192	180,097	13,650	667,939
Total Operational Expenses	\$ 63,285,075	\$ 7,122,029	\$ 946,190	\$ 71,353,294

EASTER SEALS MIDWEST

STATEMENT OF CASH FLOWS

	For The Years Ended June 30,	
	2020	2019
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 2,409,714	\$ (897,180)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	661,418	667,939
Amortization of debt issuance costs	5,522	1,841
Unrealized (gain) loss on investments	324,060	(132,468)
Realized gain on investments	(529,675)	(68,318)
Gain on disposal of property	—	(6,339)
Loss on uncollectible promises to give	26,427	171,889
Contributions restricted for permanent endowment	(8,134)	(21,381)
Changes in assets and liabilities:		
Accounts receivable	2,381,887	(1,968,175)
Pledges receivable, nonendowment	5,349	(102,004)
Prepaid expenses	212,177	(52,676)
Security deposits	(14,000)	28,850
Accounts payable	205,796	(63,648)
Accrued payroll	(1,807,491)	490,126
Accrued expenses	75,095	(172,945)
Net Cash Provided By (Used In) Operating Activities	3,948,145	(2,124,489)
Cash Flows From Investing Activities		
Proceeds from sale of investments	2,636,409	2,086,619
Purchases of investments	(2,747,047)	(2,204,537)
Purchases of property, equipment and leasehold improvements	(360,093)	(2,727,243)
Net Cash Used In Investing Activities	(470,731)	(2,845,161)
Cash Flows From Financing Activities		
Net borrowings (payments) on line of credit	(2,188,375)	2,188,375
Borrowing on long-term debt	—	2,573,981
Payments on long-term debt	(566,087)	(208,517)
Collection of contributions restricted for permanent endowment	17,274	27,573
Net Cash Provided By (Used In) Financing Activities	(2,737,188)	4,581,412
Net Increase (Decrease) In Cash And Cash Equivalents	740,226	(388,238)
Cash And Cash Equivalents - Beginning Of Year	483,854	872,092
Cash And Cash Equivalents - End Of Year	\$ 1,224,080	\$ 483,854
Supplemental Disclosure Of Cash Flow Information		
Interest paid	\$ 333,047	\$ 264,594

EASTER SEALS MIDWEST

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 And 2019

1. Summary Of Significant Accounting Policies

Financial Statement Presentation

Easter Seals Midwest (the Organization) has adopted the provisions of the Financial Accounting Standards Board (FASB) in regard to financial statements of not-for-profit organizations as discussed under ASC 958-210, *Financial Statements of Not-For-Profit Organizations*. This provision requires the reporting of total assets, liabilities and net assets in a statement of financial position and reporting the change in net assets in a statement of activities. This provision also requires that net assets, revenue, expenses, gains and losses be classified according to two classes of net assets according to donor-imposed restrictions and applicable law: net assets without donor restrictions and net assets with donor restrictions. Explanations of the net asset categories are presented below:

Net Assets Without Donor Restrictions

Net assets without donor restrictions includes net assets and contributions not subject to donor-imposed restrictions or stipulations.

Net Assets With Donor Restrictions

Net assets with donor restrictions include net assets and contributions subject to donor-imposed stipulations that will be met by actions of the Organization and/or the passage of time. In accordance with Missouri state law, absent any specific donor stipulations, earnings on net assets invested in perpetuity are donor restricted until appropriated for use by the Board of Directors. Some donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

New Accounting Pronouncement

During fiscal year 2020, the Organization adopted Accounting Standard Update (ASU) 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in evaluating whether transactions should be accounted for as contributions or reciprocal transactions. The implementation did not have a material impact on the Organization's financial statements.

EASTER SEALS MIDWEST

Notes To Financial Statements (*Continued*)

Basis Of Accounting

The Organization prepares its financial statements on the accrual basis of accounting.

Estimates And Assumptions

The Organization uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

Cash And Cash Equivalents

The Organization considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. The Organization's cash and cash equivalents are on deposit with primarily one financial institution in the St. Louis metropolitan area. At June 30, 2020, cash and cash equivalents in excess of the Federal Deposit Insurance Corporation insurance limit amounted to approximately \$1,054,000.

Investments

Investments are reported at fair value. Gains or losses on sales of investments are determined on a specified cost identification method. Unrealized gains and losses are determined based on year-end fair value fluctuations.

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the fair values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position. Investments are managed in accordance with a board-approved investment policy by a registered investment firm.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances at year end. The Organization provides an allowance for doubtful accounts equal to the estimated collection losses that will be incurred in collection of all receivables. The estimated losses are based on historical collection experience and a review of the current status of the existing receivables.

EASTER SEALS MIDWEST

Notes To Financial Statements (*Continued*)

Pledges Receivable

Unconditional promises to give (pledges receivable) are recognized as support in the period the promises are made. Conditional promises to give, that is, those with a measureable performance or other barrier, are not recognized until the conditions on which they depend have been met. The Organization uses the direct write-off method, which, for the Organization, is not considered to be materially different from the allowance method. The Organization records unconditional promises to give at the full promise amount, which is not deemed to be materially different from the net present value for promises to be received in over one year. Unconditional promises to give that are expected to be received in less than one year are classified as current on the statement of financial position. Unconditional promises to give that are expected to be received in over one year are classified as long-term on the statement of financial position. There were no conditional promises to give as of June 30, 2020 or 2019.

Property And Equipment And Leasehold Improvements

All property, equipment and leasehold improvements with the value of \$1,000 or more are capitalized. Property, equipment and leasehold improvements are carried at cost, if purchased, or at fair value, if donated, less accumulated depreciation computed using the straight-line method over periods ranging from 3 to 40 years.

Debt Issuance Costs

Debt issuance costs totaling \$55,216 consist of fees for obtaining the building loans and are being amortized using the straight-line method over the lives of the loans. Accumulated amortization totaled \$7,363 and \$1,841 at June 30, 2020 and 2019, respectively. Amortization expense amounted to \$5,522 and \$1,841 during the years ended June 30, 2020 and 2019, respectively, and is included in interest and bank fees in the statement of functional expenses.

Support Without And With Donor Restrictions

Contributions received and unconditional promises to give (pledges receivable) are measured at fair value and are recognized as increases in net assets when received or promised. The Organization reports contributions with donor restrictions if they are received with donor stipulations that limit the use of the donation, or if they are designated as support for future periods.

EASTER SEALS MIDWEST

Notes To Financial Statements (*Continued*)

When a donor restriction expires, i.e., when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Gifts received with restrictions that are satisfied within the same year are recorded as increases in net assets without donor restrictions. Pledges receivable of \$291,899 and \$325,375 are unconditional promises to give as of June 30, 2020 and 2019, respectively, and are expected to be received within the next fiscal year. The current pledges receivable include endowment promises to give of \$8,000 and \$9,700 as of June 30, 2020 and 2019, respectively. Pledges receivable expected to be received in over one year as of June 30, 2020 and 2019 totaled \$17,858 and \$25,298, respectively. The long term pledges receivable include endowment promises to give of \$17,858 and \$25,298 as of June 30, 2020 and 2019, respectively.

The Organization reports gifts of land, buildings and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated Services

Donated services that meet the criteria for recognition as stated by generally accepted accounting principles (GAAP) are recorded at fair value at the date of donation. A substantial number of volunteers have donated significant amounts of their time to the Organization's programs, special events and fundraising events; however, such donated services have not been recognized as contributions in the financial statements since the aforementioned recognition criteria were not met.

Donated Materials

Various materials are donated to the Organization. Donated materials that meet the criteria for recognition under the provisions of accounting for contributions received and contributions made in regard to financial statements of not-for-profit organizations have been recorded at fair value at the date of donation.

Description Of Program Services And Supporting Activities

The following program services and supporting activities are included in the accompanying financial statements:

Community Living Services

Community Living Services provide homes with on-site support where adults with developmental disabilities, including autism, can live independent and productive lives in the community. The program also provides training and support to people with disabilities to help them acquire valuable skills. Individuals are assisted in living in independent, yet supportive environments, learning various home management skills and developing a social support network.

Employment Services

Employment Services develops employment opportunities for individuals in the community, locates paying positions and provides on-the-job support. Jobs are carefully matched to meet each individual's work preferences, skills and support needs.

Autism Services

The Autism Services division works with individuals with autism, as well as with their families to help them develop communication, social skills and behavior modification. Autism Services customizes its services to meet each individual's and family's need for support.

Children's Services

Early Childhood Services help at-risk children achieve more in life. At the early education center, teachers incorporate an age-appropriate curriculum and innovative technology into the learning environment to meet the needs of children with and without special health needs or developmental disabilities, including autism, cerebral palsy and other diagnoses.

Management And General

Management and general includes the functions necessary to maintain an equitable human resources system; ensure an adequate working environment; provide coordination and articulation of the Organization's program strategy, secure proper administrative functioning of the Board of Directors, maintain competent legal services for the program administration and manage the financial and budgetary responsibilities of the Organization.

EASTER SEALS MIDWEST

Notes To Financial Statements (*Continued*)

Fund Development

Fund development provides the structure necessary to encourage and secure private financial support from individuals, foundations and corporations. It is an important and necessary component of the Organization's ability to offer quality service.

Expense Allocation

The costs of programs and various supporting service activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Payroll and payroll related expenses are charged to program services and supporting activities on the basis of periodic time and expense studies. Facility related expenses (such as building operation and maintenance, rent, telephone, and utilities) have been allocated to functional categories based on the use of space in the specific buildings that the programs or supporting activities are housed. Other general expenses (such as depreciation and insurance) are allocated based on a percentage of total payroll of programs and supporting services to the total Organization's expenses. All other direct expenses are based on specific identification and the nature of the expenditures.

Tax Status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law, and is, therefore, exempt from federal income taxes on related, exempt income. Therefore, there are no provisions for income taxes reflected in these financial statements.

The Organization's federal and state returns for the years ending June 30, 2019, 2018 and 2017 are subject to examination by taxing authority.

Inter-Organizational Accounts

The Organization accounts for certain program activities as independent functions in its accounting system. Accordingly, inter-organizational expenses, revenue, assets and liabilities have been eliminated within these program activities.

2. Nature Of The Organization

The Organization is a Missouri not-for-profit organization whose mission is to assist individuals with developmental disabilities, including autism, how to learn, live, work and participate in the community. The Organization is unconditionally committed to assisting these individuals to live and work with self-fulfillment and dignity.

EASTER SEALS MIDWEST

Notes To Financial Statements (Continued)

3. Investments

Investments consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 76,428	\$ 174,843
Exchange-traded and closed-end funds	5,550,528	5,427,268
Mutual funds		
Bonds	1,914,548	1,244,722
Bank loans	145,744	104,790
Natural resources	—	89,120
Value	274,854	480,700
Foreign value	—	124,406
	<u>\$ 7,962,102</u>	<u>\$ 7,645,849</u>

Investments are carried at fair value using quoted prices in active markets (Level 1).

4. Property, Equipment And Leasehold Improvements

Property, equipment, and leasehold improvements consist of:

	<u>2020</u>	<u>2019</u>
Land	\$ 878,000	\$ 878,000
Buildings	4,815,682	4,815,682
Leasehold improvements	817,928	726,227
Equipment and software	3,264,427	3,950,104
Vehicles	388,585	386,298
	<u>10,164,622</u>	<u>10,756,311</u>
Less: Accumulated depreciation	<u>3,723,124</u>	<u>4,013,488</u>
	<u>\$ 6,441,498</u>	<u>\$ 6,742,823</u>

Interest amounting to \$77,426 has been capitalized at June 30, 2020 and is being depreciated over the life of the building.

EASTER SEALS MIDWEST

Notes To Financial Statements (Continued)

5. Lines Of Credit

The Organization has a \$5,000,000 revolving line of credit, collateralized by a Commercial Pledge Agreement, multiple Deeds of Trust and multiple Assignments of Rents. Bank advances on the credit line are subject to a minimum monthly payment of interest only and carry an interest rate equal to the Index Rate minus 1.25 percentage points with a rate of 2.00% and 4.25% as of June 30, 2020 and 2019, respectively. The line of credit is collateralized by the Organization's investment account. The line of credit should not exceed 80% of the current market value of the pledged collateral. Should the loan exceed that threshold, the line of credit would be subject to a call provision.

At June 30, 2020, there was no outstanding balance on this line of credit. At June 30, 2019, there was an outstanding balance on this line of credit of \$2,188,375. The line of credit expires on May 5, 2022. The financial statements are due to the bank within 120 days of year end, and the Organization must satisfy a financial covenant.

The Organization has a \$2,000,000 line of credit which bears interest at the Index Rate minus 0.5 percentage point with a rate of 2.75% and 5.0% as of June 30, 2020 and 2019, respectively. The line of credit is secured by accounts receivable. In 2016, the Organization entered into a promissory note with the bank for \$750,000 (Note 6), requiring monthly payments of \$13,487 at 2.99% interest, which reduced the amount of the available line of credit. At June 30, 2020 and 2019, the available unused line of credit was \$1,906,641 and \$1,737,408, respectively. The line of credit expires on May 5, 2022.

6. Long-Term Debt

Long-term debt consists of the following:

	<u>2020</u>	<u>2019</u>
Note payable - bank, payable in monthly installments of \$13,487, including principal and interest at the rate of 2.99%, through maturity in February 2021	\$ 93,359	\$ 262,592

EASTER SEALS MIDWEST

Notes To Financial Statements (Continued)

	<u>2020</u>	<u>2019</u>
Balance Carried Forward	\$ 93,359	\$ 262,592
<p>Series 2018A building loan - funds advanced to acquire, construct, furnish and equip new office facilities, including the acquisition of land. The maximum principal amount is \$4,048,000. Beginning June 9, 2018 and continuing monthly through February 9, 2019, payments of interest only were required. Beginning March 9, 2019, and continuing monthly through February 9, 2029, payments of principal and interest in an amount sufficient to fully amortize the loan over a period of 20 years are required. The balance of principal and accrued interest is payable on February 9, 2029. The interest rate on the loan is 3.72% through February 8, 2026, and 2.25% above the swap rate thereafter. The loan is secured by a First Deed of Trust on the land and facilities acquired.</p>	3,850,083	4,001,782
<p>Series 2018B building loan to acquire, construct, furnish and equip new office facilities, including the acquisition of land, was issued to the Organization in May 2018. The maximum principal amount of the 2018B building loan is \$1,952,000. Beginning June 9, 2018 and continuing monthly through February 9, 2019, payments of interest only were required. Beginning March 9, 2019, and continuing monthly through February 9, 2026, payments of principal and interest in an amount sufficient to fully amortize the loan over a period of seven years are required. The balance of principal and accrued interest is payable on February 9, 2026. The interest rate on the loan is 3.68%. The loan is secured by a Second Deed of Trust on the land and facilities acquired.</p>	1,551,146	1,796,301
	5,494,588	6,060,675
Less: Current maturities	490,277	517,699
Less: Debt issuance costs	47,853	53,375
	\$ 4,956,458	\$ 5,489,601

The scheduled maturities of the long-term debt at June 30, 2020 are as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 490,277
2022	412,043
2023	427,745
2024	443,645
2025	460,951
Thereafter	3,259,927
	\$ 5,494,588

7. Endowment Funds

The Organization's endowment consists of five individual funds as well as one fund created by the Organization's endowment campaign. The funds were established for a variety of purposes. The endowment funds include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The donor restricted fund that is perpetual in nature created by the endowment campaign can be utilized to pay for expenses related to the operation of the campaign. There were no such releases made during the years ended June 30, 2020 or 2019.

Interpretation Of 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 donor-restricted endowment funds invested in perpetuity (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Investment earnings that are not classified as donor-restricted endowment funds invested in perpetuity are classified as donor-restricted endowment funds - unappropriated investment earnings 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 making a determination to appropriate or accumulate donor-restricted endowment funds - unappropriated investment earnings:

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

EASTER SEALS MIDWEST

Notes To Financial Statements (Continued)

At June 30, 2020, the Organization had the following endowment funds:

	2020			
	Without Donor Restrictions	Unappropriated Investment Earnings	Investments In Perpetuity	Total
Donor-restricted endowment funds	\$ —	\$ 79,770	\$ 3,897,133	\$ 3,976,903
Board-designated quasi-endowment funds	3,241,809	—	—	3,241,809
	<u>\$ 3,241,809</u>	<u>\$ 79,770</u>	<u>\$ 3,897,133</u>	<u>\$ 7,218,712</u>

As of June 30, 2019, the Organization had the following endowment funds:

	2019			
	Without Donor Restrictions	Unappropriated Investment Earnings	Investments In Perpetuity	Total
Donor-restricted endowment funds	\$ —	\$ —	\$ 3,879,859	\$ 3,879,859
Board-designated quasi-endowment funds	3,042,717	—	—	3,042,717
	<u>\$ 3,042,717</u>	<u>\$ —</u>	<u>\$ 3,879,859</u>	<u>\$ 6,922,576</u>

EASTER SEALS MIDWEST

Notes To Financial Statements (*Continued*)

The changes in the endowment funds for the fiscal years ended June 30, 2020 and 2019 are as follows:

	Without Donor Restrictions	Unappropriated Investment Earnings	Investments In Perpetuity	Total
Endowment Assets - June 30, 2018	\$ 2,935,809	\$ 100,344	\$ 3,852,286	\$ 6,888,439
Investment Return				
Interest and dividends	65,178	26,000	—	91,178
Net realized and unrealized gains	135,381	54,005	—	189,386
Total Investment Return	200,559	80,005	—	280,564
Contributions	—	—	27,573	27,573
Appropriation of endowment assets for expenditure	(93,651)	(180,349)	—	(274,000)
Endowment Assets - June 30, 2019	3,042,717	—	3,879,859	6,922,576
Investment Return				
Interest and dividends	70,814	28,373	—	99,187
Net realized and unrealized gains	128,278	51,397	—	179,675
Total Investment Return	199,092	79,770	—	278,862
Contributions	—	—	17,274	17,274
Endowment Assets - June 30, 2020	\$ 3,241,809	\$ 79,770	\$ 3,897,133	\$ 7,218,712

Return Objectives And Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested to achieve the long-term rate of return using broad diversification of assets across asset classes, styles, regions and strategies in accordance with the investment policy. The primary benchmark for the endowment's average rate of return is 7% per year. Actual returns in any given year may vary from this amount.

Strategies Employed For Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy And How The Investment Objectives Relate To Spending Policy

During 2011, the Organization adopted a policy of appropriating for distribution each year a rate of no more than 5% of the Endowment Fund's average assets of the immediately preceding eight quarters as of July 1st while complying with any donor-imposed restrictions. The Organization's Board did not approve a distribution from the endowment for the year ended June 30, 2020. The Organization's Board has approved a distribution of \$274,000 for the year ended June 30, 2019. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow on an annual basis. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Net Assets Without Donor Restrictions

Net assets without donor restrictions include amounts designated by the board for specific purposes and reserves as required by the U.S. Department of Housing and Urban Development.

The Organization's Board has designated net assets of \$3,241,809 and \$3,042,717 at June 30, 2020 and 2019, respectively, as principal, which is to be maintained similarly to donor restricted net assets that are perpetual in nature. Interest and dividends on these designated assets are available for the Organization's use in accordance with its spending policy.

EASTER SEALS MIDWEST

Notes To Financial Statements (Continued)

8. Net Assets With Donor Restrictions

Net assets with donor restrictions were as follows at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
With Donor Restrictions For Time And Purpose		
Subject to expenditure for specified purpose:		
Learning center (Hess)	\$ 163,982	\$ 163,982
Loan fund - Edith Wolff	37,266	37,266
Youth Opportunity Program	—	88,468
Timing restrictions, including nonendowment pledges receivable	293,467	206,726
Charitable reminder trust	2,529	2,529
Donor-restricted endowment funds - unappropriated investment earnings (Note 7)	79,770	—
	<u>577,014</u>	<u>498,971</u>
Endowment		
Donor-restricted endowment pledges receivable (Note 1)	25,858	34,998
Donor-restricted endowment funds - investments in perpetuity (Note 7)	3,897,133	3,879,859
	<u>3,922,991</u>	<u>3,914,857</u>
	<u>\$ 4,500,005</u>	<u>\$ 4,413,828</u>

Net assets were released from net assets with donor restrictions as follows:

	<u>2020</u>	<u>2019</u>
Program restrictions	\$ 88,468	\$ —
Timing restrictions	260,668	162,631
Appropriation of endowment investment earnings (Note 7)	—	180,349
Write off of endowment pledges receivable	—	150,169
	<u>\$ 349,136</u>	<u>\$ 493,149</u>

EASTER SEALS MIDWEST

Notes To Financial Statements (*Continued*)

9. Lease Commitments

The Organization leases office space under noncancellable operating leases. The Organization also leases various office equipment and vehicles. All of these are noncancellable operating leases that have various expiration dates through April 2027. Rent expense is recognized on a straight-line basis over the life of each lease. Total rent expense for the years ended June 30, 2020 and 2019 was \$1,095,663 and \$1,498,651, respectively.

Future minimum lease payments are as follows at June 30, 2020:

<u>Year</u>	<u>Amount</u>
2021	\$ 981,639
2022	637,754
2023	246,805
2024	177,996
2025	180,428
Thereafter	336,930
	<u>\$ 2,561,552</u>

10. Concentrations

Approximately 85% of the Organization's total operating revenues were received from the Missouri Department of Mental Health for the years ended June 30, 2020 and 2019.

The majority of the Organization's program revenue is through contractual arrangements with state and local agencies as follows at June 30:

	<u>2020</u>	<u>2019</u>
Missouri Department of Mental Health	\$ 61,569,483	\$ 59,458,982
Productive Living Board for St. Louis County		
Citizens with Developmental Disabilities	3,527,093	2,872,327
Developmental Disabilities Resource Board		
of St. Charles County	672,058	823,217
Missouri Vocational Rehabilitation	807,267	938,320

11. Grant Contingencies

The Organization has received grants from the St. Louis Office of Developmental Disability Resources (DDR) which were used to purchase equipment and renovate buildings. According to the terms of the grants, if the Organization disposes of, sells, trades or in any other way alters the ownership of the property, the Organization must reimburse the grantor according to a schedule of declining percentages. The Organization did not dispose of applicable assets in 2020 or 2019 and was not required to pay anything to DDR in 2020 or 2019.

12. Employee Deferral Compensation Plan

The Organization has a 403(b) plan that covers eligible employees with one-year tenure and 1,000 hours or more worked. The plan allows the participants to make contributions to the plan through salary deferrals. The plan also requires the Organization to match 50% of each employee's contributions up to 6% of the employee's annual base compensation, thereby resulting in a maximum matching contribution of 3%. The Organization's contributions to the plan totaled \$246,298 and \$242,909 for the years ended June 30, 2020 and 2019, respectively.

13. Health Insurance

The Organization has a self-funded health insurance plan and maintains stop-loss insurance. The stop-loss insurance mitigates excessive claim risk and reimburses the Organization for claims that exceed a predetermined amount. The Organization utilizes an escrow account to pay approved medical claims that must maintain a balance of \$14,500 and \$89,000 for the years ended June 30, 2020 and 2019, respectively. Daily balance notices are received via email and transfers to the escrow account are made weekly to reimburse the escrow account for claims paid during the week to get the account back to its required balance.

Additionally, the Affordable Care Act requires health insurance to be affordable and provide minimum value to their full-time employees and their dependents, or otherwise make an employer shared responsibility payment to the Internal Revenue Service.

Estimated insurance costs payable, including estimated employer shared responsibility payments, as of June 30, 2020 and 2019, were \$1,149,013 and \$751,435, respectively.

14. Liquidity And Availability Of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,224,080	\$ 483,854
Accounts receivable	7,652,561	10,034,448
Pledges receivable	283,899	315,675
Investments	4,064,969	3,765,990
	<u>\$ 13,225,509</u>	<u>\$ 14,599,967</u>

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize investment returns. The Organization has various sources of liquidity available, including cash and cash equivalents, lines of credit, and board designated spending plan from investment returns.

The board designated endowment is subject to an annual spending policy of no more than 5% of the Endowment Fund's average assets of the immediately preceding eight quarters as of July 1st while complying with any donor-imposed restrictions, as stated in Note 7.

For purposes of analyzing resources available to meet general expenditures over a 12 month period, the Organization considers all expenditures related to its ongoing activities of providing social service programs to individuals with intellectual and developmental disabilities, to be general expenditures. In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

15. Risks And Uncertainties

The ongoing COVID-19 pandemic has prompted many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant impact upon many sectors of the economy, including the services provided by Easter Seals Midwest.

16. Subsequent Events

The Organization is discontinuing the Early Childhood Tots program as of July 2020. Another not-for-profit organization will continue this program, but no consideration is being paid to the Organization.

Management evaluates subsequent events through the date the financial statements are available for issue, which is the date of the Independent Auditors' Report.