

**EASTERSEALS CAPITAL REGION &
EASTERN CONNECTICUT, INC.**

**Independent Auditors' Report
Financial Statements**

June 30, 2021



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**EASTER SEALS CAPITAL REGION &
EASTERN CONNECTICUT, INC.**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Easterseals Capital Region & Eastern Connecticut, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Easterseals Capital Region & Eastern Connecticut, Inc. ("Easterseals"), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and change in net assets, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 Easterseals' 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 Easterseals' 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 Capital Region & Eastern Connecticut, Inc. as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Easterseals Capital Region & Eastern Connecticut, Inc.'s 2020 financial statements, and our report dated December 16, 2019 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Whittlesey PC". The signature is written in a cursive, flowing style.

Hartford, Connecticut
November 18, 2021

EASTERSEALS CAPITAL REGION & EASTERN CONNECTICUT, INC.

Statements of Financial Position

June 30, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash	\$ 1,615,736	\$ 1,169,404
Restricted cash - unemployment trust reserve	62,594	58,295
Accounts and grants receivable, net	688,217	473,338
Investments	4,078,120	3,642,911
Prepaid expenses and other assets	95,811	77,930
Total current assets	<u>6,540,478</u>	<u>5,421,878</u>
Donor restricted investments	937,454	937,454
Fixed assets, net	<u>5,191,931</u>	<u>4,217,569</u>
Total assets	<u><u>\$ 12,669,863</u></u>	<u><u>\$ 10,576,901</u></u>
Liabilities and net assets		
Current liabilities:		
Line of credit	\$ 97,005	\$ -
Mortgage payable, current portion	54,686	52,331
Due to DDS, current portion	12,504	12,520
Accounts payable	1,109	53,896
Construction accounts payable	357,149	-
Accrued liabilities	883,968	841,159
Refundable advance - Paycheck Protection Program	767,416	838,190
Deferred revenue and refundable advances	104,183	85,094
Total current liabilities	<u>2,278,020</u>	<u>1,883,190</u>
Long term liabilities:		
Mortgage payable, long term portion	259,691	309,906
Due to DDS, long term portion	-	5,194
Total long term liabilities	<u>259,691</u>	<u>315,100</u>
Total liabilities	<u>2,537,711</u>	<u>2,198,290</u>
Net assets:		
Without donor restrictions:		
Undesignated	3,101,355	3,287,895
Board-designated	4,078,120	3,642,911
Total without donor restrictions	<u>7,179,475</u>	<u>6,930,806</u>
With donor restrictions	2,952,677	1,447,805
Total net assets	<u>10,132,152</u>	<u>8,378,611</u>
Total liabilities and net assets	<u><u>\$ 12,669,863</u></u>	<u><u>\$ 10,576,901</u></u>

The accompanying notes are an integral part of the financial statements.

EASTERSEALS CAPITAL REGION & EASTERN CONNECTICUT, INC.

Statements of Activities and Changes in Net Assets

For the years ended June 30, 2021 and 2020

	2021	2020
Changes in net assets without donor restrictions:		
Revenues and other support:		
Grants and contracts from government agencies	\$ 2,790,991	\$ 3,480,873
Program service fees	1,400,391	1,504,383
Contributions and special events	456,382	874,005
Rental income	264,970	299,985
Paycheck Protection Program income	838,190	-
In-kind contribution	49,038	49,038
Investment income, net of investment advisory fees	838,680	214,297
Net assets released from restrictions	558,327	445,831
Total revenues and other support	<u>7,196,969</u>	<u>6,868,412</u>
Expenses:		
Program services	5,056,376	5,830,415
General and administrative	1,580,582	1,308,257
Fundraising	311,342	418,921
Total expenses	<u>6,948,300</u>	<u>7,557,593</u>
Change in net assets without donor restrictions	<u>248,669</u>	<u>(689,181)</u>
Changes in net assets with donor restrictions:		
Contributions	614,572	165,914
State bond funds - Rally Point	1,238,957	-
Investment income, net of investment advisory fees	209,670	53,574
Net assets released from restrictions	<u>(558,327)</u>	<u>(445,831)</u>
Change in net assets with donor restrictions	<u>1,504,872</u>	<u>(226,343)</u>
Total change in net assets	1,753,541	(915,524)
Net assets, beginning of year	<u>8,378,611</u>	<u>9,294,135</u>
Net assets, end of year	<u><u>\$ 10,132,152</u></u>	<u><u>\$ 8,378,611</u></u>

The accompanying notes are an integral part of the financial statements.

EASTERSEALS CAPITAL REGION & EASTERN CONNECTICUT, INC.

Statements of Functional Expenses

For the years ended June 30, 2021 and 2020

	2021				2020			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Employee compensation	\$ 2,626,782	\$ 833,679	\$ 178,841	\$ 3,639,302	\$ 2,953,468	\$ 759,241	\$ 229,584	\$ 3,942,293
Employee taxes and benefits	829,338	158,736	32,155	1,020,229	851,090	154,905	35,933	1,041,928
Total employee compensation and related benefits	3,456,120	992,415	210,996	4,659,531	3,804,558	914,146	265,517	4,984,221
Program wages, supplies and materials	359,666	-	-	359,666	648,297	-	-	648,297
Occupancy	364,670	5,247	845	370,762	364,180	7,208	1,760	373,148
Professional services	2,015	385,910	20,779	408,704	2,515	212,419	21,724	236,658
Depreciation	407,734	18,194	-	425,928	379,574	6,724	-	386,298
Supplies, repairs, and maintenance	147,368	36,451	4,253	188,072	200,730	57,031	5,302	263,063
Special events	-	-	68,981	68,981	-	-	111,197	111,197
Vehicle	84,573	15,527	87	100,187	188,477	2,396	837	191,710
Insurance	126,134	26,977	-	153,111	114,398	21,044	-	135,442
Other	63,428	33,334	5,372	102,134	51,203	15,356	12,501	79,060
Cyber security	21,129	-	-	21,129	56,456	-	-	56,456
Easterseals dues	-	53,372	-	53,372	-	49,345	-	49,345
Interest	13,125	222	-	13,347	14,531	-	-	14,531
Employee travel/outreach	10,414	611	29	11,054	5,496	380	83	5,959
Bad debt	-	12,322	-	12,322	-	22,208	-	22,208
Total expenses	\$ 5,056,376	\$ 1,580,582	\$ 311,342	\$ 6,948,300	\$ 5,830,415	\$ 1,308,257	\$ 418,921	\$ 7,557,593

The accompanying notes are an integral part of the financial statements.

EASTERSEALS CAPITAL REGION & EASTERN CONNECTICUT, INC.

Statements of Cash Flows

For the years ended June 30, 2021 and 2020

	2021	2020
Operating activities		
Change in net assets	\$ 1,753,541	\$ (915,524)
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
State bond funds and capital grants	(1,369,745)	(208,292)
Depreciation	425,928	386,298
Unrealized gains on investments	(1,049,751)	(84,643)
Net realized loss/(gain) on sale of investments	90,039	(61,739)
(Increase)/decrease in assets:		
Accounts and grants receivable	(214,879)	157,752
Prepaid expenses and other assets	(17,881)	24,248
Increase/(decrease) in liabilities:		
Accounts payable	(52,787)	(49,835)
Accrued liabilities	42,809	263,527
Due to DDS	(5,210)	(9,378)
Refundable advance - Paycheck Protection Program	(70,774)	838,190
Deferred revenue and refundable advances	19,089	(102,956)
Net change in cash from operating activities	<u>(449,621)</u>	<u>237,648</u>
Investing activities		
Purchases of fixed assets	(1,043,141)	(417,115)
Purchases of investments	(323,986)	(408,705)
Proceeds from sales of investments	848,489	682,256
Net change in cash from investing activities	<u>(518,638)</u>	<u>(143,564)</u>
Financing activities		
State bond funds and capital grants	1,369,745	208,292
Net proceeds from line of credit	97,005	-
Principal payments on mortgage payable	(47,860)	(37,930)
Net change in cash from financing activities	<u>1,418,890</u>	<u>170,362</u>
Net change in cash	450,631	264,446
Cash and restricted cash, beginning of year	<u>1,227,699</u>	<u>963,253</u>
Cash and restricted cash, end of year	<u><u>\$ 1,678,330</u></u>	<u><u>\$ 1,227,699</u></u>
Supplemental information:		
Cash paid for interest	<u>\$ 11,054</u>	<u>\$ 16,385</u>
Construction in progress funded by payables	<u>\$ 357,149</u>	<u>\$ -</u>
Reconciliation of cash and restricted cash		
Cash	\$ 1,615,736	\$ 1,169,404
Restricted cash - unemployment trust reserve	62,594	58,295
Cash and restricted cash, as presented above	<u><u>\$ 1,678,330</u></u>	<u><u>\$ 1,227,699</u></u>

The accompanying notes are an integral part of the financial statements.

EASTERSEALS CAPITAL REGION & EASTERN CONNECTICUT, INC.

Notes to Financial Statements

June 30, 2021 and 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Easterseals Capital Region & Eastern Connecticut, Inc., (“Easterseals”) is a Connecticut not-for-profit corporation with locations in Windsor, East Hartford, and Norwich, Connecticut. Easterseals provides medical and vocational rehabilitation services for seniors and for adults and children with physical, mental, emotional or learning disabilities. Easterseals is affiliated with Easterseals, Inc. based in Chicago, Illinois.

The following is a summary of significant accounting policies of Easterseals.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Basis of Presentation

The financial statements of Easterseals comply with the *Financial Statements of Not-for-Profit Organizations* topic of the FASB Codification. Under this topic, Easterseals reports information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations. Board designated net assets represents investment funds designated by the Board of Directors to serve as an endowment.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that may or will be met by actions of Easterseals and/or passage of time, as well as net assets subject to donor-imposed stipulations that Easterseals maintains permanently.

Fixed Assets

Fixed assets owned by Easterseals are recorded at cost or, if donated, at fair market value. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Building improvements	5 - 30 years
Equipment and vehicles	3 - 10 years

Allowance for Doubtful Accounts

The allowance for doubtful accounts is maintained at levels which are adequate to absorb reasonable foreseeable losses based on management’s evaluation of outstanding balances and current economic conditions. Balances that remain outstanding after Easterseals has used reasonable collection efforts are written off.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Fair Value Measurements

The Financial Accounting Standards Board (“FASB”) has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Inputs to the valuation methodology for the three levels of the fair value hierarchy are described below:

- Level 1* Unadjusted quoted prices for identical assets or liabilities in active markets that Easterseals has the ability to access.
- Level 2* Quoted prices for similar assets or liabilities in active markets;
Quoted prices for identical or similar assets or liabilities in inactive markets;
Inputs other than quoted prices that are observable for the asset or liability;
Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3* Unobservable and significant to the fair value measurement.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Endowment and Spending Policy

Easterseals 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 Easterseals must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in accordance with sound investment practices that emphasize long-term investment fundamentals. It is recognized that short-term market fluctuations may cause variations in account performance.

To satisfy its long-term rate of return objectives, Easterseals 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). Easterseals 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.

The Board approves annual appropriations for distribution. When deciding the appropriation amount, the Board considers the long-term expected return on its endowment in order 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.

Grants and Contracts from Government Agencies

Easterseals receives various grants from federal, state, local and private agencies for program and supporting service expenses. Such government grants and contracts are nonreciprocal transactions and include conditions stipulated by the government agencies and are, therefore, accounted for as conditional contributions. Public support is recognized as conditions are satisfied, primarily as expenses are incurred. Cash received on government grants and contracts prior to incurring allowable expenses are recorded as refundable advances. In addition, DDS has provided cash advances (“DDS Bridge Funding”) to

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Easterseals in the amount of \$263,076 which are refundable upon request. The DDS Bridge Funding is recorded as an offset to DDS Grants Receivable in accordance with DDS guidelines.

Grants receivable represent expenditures of funds in accordance with grant stipulations or fulfillment of contract terms for which reimbursement has not yet been received by the grantor agency. Easterseals believes all grants receivable are considered collectible, and therefore no allowance for uncollectable accounts has been established.

Conditional Promises to Give

Conditional grants and contracts from government agencies not recognized as revenue as of June 30, 2021 totaled \$7,441,106. Government grants and contracts are conditioned upon incurring qualified program expenses in accordance with state and federal cost standards.

Revenue from Contracts with Customers

In accordance with FASB ASC 606, Easterseals recognizes revenue from contracts with customers at an amount that reflects the consideration to which Easterseals expects to be entitled in exchange for transferring goods or services to its customers using the following five-step process:

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

Program Service Fees: Vocational Rehabilitation Service Contracts

EnviroShred – Easterseals provides secure document destruction services for companies. This program was developed to provide employment, training and rehabilitation opportunities for individuals with disabilities. Easterseals contracts with companies and invoices customers on a month to month basis. The transaction price is based upon volume of documents shredded. The performance obligation is satisfied upon completion of the service provided, which is destruction of documents. Each customer (except walk-in customers) receive a Certificate of Destruction upon completion of the document destruction.

EnviroClean – Easterseals janitorial program provides employment opportunities for those with disability and barriers. Easterseals contracts with companies to provide janitorial services on a month to month basis. The transaction price is based upon per diem rates which are invoiced on a monthly basis. The performance obligation is satisfied upon completion of the service provided.

Employment and Training Services – Easterseals contracts with the Connecticut Bureau of Rehabilitation Services (“BRS”), Workers’ Rehabilitation Services and at times State of Connecticut Department of Developmental Services (“DDS”) to provide job training services to individuals with disabilities. The transaction price is a unit-based rate established in the contract with the agencies. The performance obligation is based upon completion of each hour of service provided.

Program Service Fees: Medical Rehabilitation Services – Third Party Reimbursements

Easterseals provides medical rehabilitation services which include neuropsychology and physical therapy.

The contractual relationships with clients may involve a third-party payor such as Medicare, Medicaid or a commercial insurance company, and the transaction prices for the services provided are dependent upon the terms negotiated with the third-party payors. Treatment program fees are reported at the amount that reflects the consideration to which Easterseals expects to be entitled in exchange for providing services.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Easterseals determines transaction prices based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors and discounts provided to uninsured patients in accordance with Easterseals' policy. Easterseals determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience agreements with third-party payors provide for payments at amounts less than established charges. The contracts Easterseals has with third-party payors also provide for retroactive audit and review of claims. Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care.

These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and Easterseals' historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations.

Contributions and Special Events

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions that increases net assets with donor restrictions. When a donor restriction expires, that is, 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 consolidated statements of activities as net assets released from restrictions. Conditional contributions – that is, those with a measurable performance or other barrier and a right of return – are not recognized as revenue until the conditions on which they depend are substantially met.

Easterseals also receives income in advance for various special fundraising events throughout the year. This revenue is recognized upon completion of the event. At June 30, 2021 and 2020, Easterseals had collected \$104,183 and \$85,094 of special event fees for events which had not yet taken place. These amounts are recorded as deferred revenue and included as deferred revenue and refundable advances on the Statements of Financial Position

Functional Expense Allocations

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among supporting services benefited. Such allocations are determined by management on an equitable basis.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Employee compensation, taxes and benefits - program staff	Time and effort
Employee compensation, taxes and benefits - finance	Accumulated direct costs
Employee compensation, taxes and benefits - billing	Billed revenues
Program wages, supplies and materials	Time and effort
Professional services	Accumulated direct costs
Insurance	Accumulated direct costs
Depreciation	Accumulated direct costs
Vehicle	Accumulated direct costs
Occupancy	Accumulated direct costs
Other	Time and effort

Tax Status

Easterseals is a not-for-profit voluntary health and welfare agency, exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. Easterseals has been classified as an organization that is not a private foundation and has been designated as a “publicly supported” organization.

Easterseals has income attributable to rental income that is subject to federal and state unrelated business income taxes. For the years ended June 30, 2021 and 2020, Easterseals has experienced a loss in these activities, and therefore no taxes were due.

Use of Estimates

The preparation of financial statements in conformity with auditing standards generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the related footnotes. Actual results could differ from those estimates.

Financial Instruments and Credit Risk

Financial instruments, which potentially subject Easterseals to concentration of credit risk, consist principally of temporary cash investments and money market funds. Easterseals places its temporary cash and other investments with high-credit, quality financial institutions, which may exceed federally and privately insured amounts at times. Easterseals does not believe that it is exposed to any significant credit risk on uninsured amounts.

Subsequent Events Measurement Date

Easterseals monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for the fiscal year ended June 30, 2021 through November 18, 2021, the date on which financial statements were available to be issued.

NOTE 2 – LIQUIDITY AND AVAILABILITY

The following reflects Easterseals' financial assets, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within the next twelve months of June 30,:

	2021	2020
Cash	\$ 1,615,736	\$ 1,169,404
Accounts and grants receivable, net	688,217	473,338
Investments	5,015,574	4,580,365
Financial assets, at year end	7,319,527	6,223,107
Less those unavailable for general expenditure within one year:		
Net assets restricted by donor with time or purpose restrictions, net of Rally Point build-out	(1,713,720)	(1,447,805)
Board-designated endowment funds	(4,078,120)	(3,642,911)
Estimated draw from board-designated endowment	250,000	250,000
Financial assets available to meet cash needs for general expenditures within the next twelve months	\$ 1,777,687	\$ 1,382,391

As part of Easterseals' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Easterseals invests cash in excess of daily requirements in short-term investments, which are available for operational use should the need arise. Easterseals has a board-designated endowment fund of \$4,078,120 at June 30, 2021. Although Easterseals does not intend to spend from its board designated endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment may be drawn upon in the event of an immediate liquidity need resulting from events outside the typical life cycle.

NOTE 3 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable consist of the following at June 30,:

	2021	2020
DDS accounts receivable	\$ 241,265	\$ 406,817
Less DDS Bridge Funding	(263,076)	(263,077)
Net DDS (refundable advance)/receivable	(21,811)	143,740
Vocational receivables, less allowance for uncollectible accounts of \$44,589 in 2021 and \$26,407 in 2020	136,979	124,268
Patient service receivables, less allowance for uncollectible accounts of \$37,486 in 2021 and \$43,346 in 2020	144,473	142,409
Other grants receivable	415,576	39,421
Contributions receivable	13,000	23,500
	\$ 688,217	\$ 473,338

NOTE 4 – UNEMPLOYMENT TRUST RESERVE

Easterseals maintains an Unemployment Trust Reserve account to manage its unemployment claims. The account is held and managed by Unemployment Services Trust (“UST”). Easterseals has recorded an asset on the Statements of Financial Position which represents the amount of cash in the reserve account, and a liability for expected claims to be paid, which is included with accrued liabilities on the Statements of Financial Position.

NOTE 5 – INVESTMENTS

Investments consist of the following at June 30,:

	2021	2020
Fixed income:		
Investment Grade Taxable	\$ 1,133,921	\$ 1,123,936
Municipal Bonds	187,356	361,864
Ishares Treasury Bond ETF	131,001	94,150
	<u>1,452,278</u>	<u>1,579,950</u>
Equities:		
U.S. Large Cap	3,308,114	2,740,095
International Developed	33,488	38,790
Emerging Markets	46,164	47,532
	<u>3,387,766</u>	<u>2,826,417</u>
Money Market	175,530	173,998
	<u>\$ 5,015,574</u>	<u>\$ 4,580,365</u>

All investments are valued using Level 1 inputs. All investments are valued at observable quoted prices for identical assets in active markets.

NOTE 6 – ENDOWMENT

Easterseals has adopted the provisions of the FASB *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Fund*. Easterseals’ endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, 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.

Easterseals has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (“CTUPMIFA”) 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.

NOTE 6 – ENDOWMENT (CONTINUED)

As a result of this interpretation, Easterseals classifies as the permanent portion of net assets with donor restrictions (a) the original value of gifts donated to the restricted endowment, (b) the original value of subsequent gifts to the restricted endowment, and (c) accumulations to the restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in the permanent portion of net assets with donor restrictions, is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by CTUPMIFA. In accordance with CTUPMIFA,

Easterseals considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of Easterseals and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Easterseals
- The investment policies of Easterseals

Endowment net asset composition is as follows at June 30,:

2021			
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment	\$ -	\$ 937,454	\$ 937,454
Board-designated endowment	4,078,120	-	4,078,120
Total	<u>\$ 4,078,120</u>	<u>\$ 937,454</u>	<u>\$ 5,015,574</u>

2020			
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment	\$ -	\$ 937,454	\$ 937,454
Board-designated endowment	3,642,911	-	3,642,911
Total	<u>\$ 3,642,911</u>	<u>\$ 937,454</u>	<u>\$ 4,580,365</u>

NOTE 6 – ENDOWMENT (CONTINUED)

Changes in endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, at July 1, 2019	<u>\$ 3,770,080</u>	<u>\$ 937,454</u>	<u>\$ 4,707,534</u>
Investment return:			
Interest and dividends, net of investment fees	97,191	24,298	121,489
Realized and unrealized gains	<u>117,106</u>	<u>29,276</u>	<u>146,382</u>
Total investment return	214,297	53,574	267,871
Transfers to operating cash	(400,000)	-	(400,000)
Bequests received	4,960	-	4,960
Released from restrictions	<u>53,574</u>	<u>(53,574)</u>	<u>-</u>
Endowment net assets, at June 30, 2020	<u>\$ 3,642,911</u>	<u>\$ 937,454</u>	<u>\$ 4,580,365</u>
Investment return:			
Interest and dividends, net of investment fees	70,910	17,728	88,638
Realized and unrealized gains	<u>767,770</u>	<u>191,942</u>	<u>959,712</u>
Total investment return	838,680	209,670	1,048,350
Transfers to operating cash	(613,141)	-	(613,141)
Released from restrictions	<u>209,670</u>	<u>(209,670)</u>	<u>-</u>
Endowment net assets, at June 30, 2021	<u><u>\$ 4,078,120</u></u>	<u><u>\$ 937,454</u></u>	<u><u>\$ 5,015,574</u></u>

NOTE 7 – FIXED ASSETS, NET

Fixed assets, net, consisted of the following at June 30,:

	2021	2020
Land, buildings and building improvements	<u>\$ 5,998,781</u>	<u>\$ 5,998,781</u>
Equipment and vehicles	<u>2,494,950</u>	<u>2,333,617</u>
	8,493,731	8,332,398
Less accumulated depreciation	(4,540,757)	(4,114,829)
Construction in progress	<u>1,238,957</u>	<u>-</u>
Total fixed assets, net	<u><u>\$ 5,191,931</u></u>	<u><u>\$ 4,217,569</u></u>

NOTE 8 – REFUNDABLE ADVANCE – PAYCHECK PROTECTION PROGRAM

In May 2020, Easterseals received approval for a Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) loan in the amount of \$838,190. Under the PPP, funds are forgivable if utilized for qualified expenditures according to the program criteria incurred over the eight to twenty-four week period (the “covered period”) following the date of funding. In order to qualify for forgiveness, at least 60% of the funding must be spent on eligible payroll expenses, and up to 40% may be spent on other eligible expenditures, such as rent and utilities. As outlined by the SBA, any unforgiven balance must be repaid over two years at an annual interest rate of 1% with an initial deferment period of ten months after the conclusion of the covered period (interest will accrue). The full amount was recorded as a refundable advance as of June 30, 2020. During July 2021, the full balance was forgiven and the Organization recognized the income during the year ended June 30, 2021.

Easterseals applied for a second PPP loan in the amount of \$767,416 which was received in February 2021. As of June 30, 2021, the entire balance received, \$767,416 is recorded as a refundable advance in the accompanying financial statements. Easterseals intends to file for full forgiveness of this balance subsequent to year end.

NOTE 9 – LINE OF CREDIT

Easterseals has available a bank line of credit of \$100,000 secured by business assets, established in April 2020. Interest was 2.69% at June 30, 2021. There was an outstanding balance of \$97,005 and \$-0- as of June 30, 2021 and 2020, respectively. All advances shall be payable on or before the maturity date of April 6, 2024.

NOTE 10 – RETIREMENT PLAN

Easterseals sponsors a defined contribution benefit plan (the “Plan”) and a tax sheltered annuity plan (“TSA”). Both plans cover employees who have attained age twenty-one and have completed 1,000 hours of service on an annual basis. Under the provisions of the Plan, Easterseals contributes a minimum of 2% of participants’ compensation on behalf of all employees. TSA participants may contribute additional amounts up to 20% of their compensation, with Easterseals matching up to 3% of the employees’ compensation. Participants will be 100% vested at the end of five years of participation in the plans for contributions made by Easterseals. Retirement expense amounted to \$115,975 and \$100,775 for the years ended June 30, 2021 and 2020, respectively.

NOTE 11 – LEASE COMMITMENTS

Operating Leases

Easterseals entered into an agreement to lease space in East Hartford, Connecticut, which expires November 30, 2029. Future minimum lease payments are as follows for the years ending June 30,:

2023	\$ 75,933
2024	77,946
2024	79,385
2025	81,398
2026	82,836
Thereafter	289,926
	<u>\$ 687,424</u>

NOTE 11 – LEASE COMMITMENTS (CONTINUED)

In September 2019, Easterseals entered into a partnership with the State of Connecticut Department of Veterans Affairs (“DVA”), which included a lease for 11,485 square feet of space on DVA’s campus in Rocky Hill, Connecticut. Commencing September 2019, the lease has a 5-year term, and rental costs of \$4,087 per month, of which all but \$6 per year is to be donated to Easterseals as part of an in-kind arrangement. Accordingly, for the years ending June 30, 2021 and 2020, \$49,038 has been recognized as in-kind rent contribution and related expense in the accompanying statements of activities and changes in net assets.

Rental Income

Easterseals leases space at its building located at 100 Deerfield Road, Windsor, Connecticut, to a third party, through March 2022. Estimated committed rental is \$94,288 for the year ending June 30, 2022.

NOTE 12 – MORTGAGE PAYABLE

On June 30, 2016, Easterseals executed a commercial real estate mortgage note with Webster Bank, N.A., secured by the property at 24 Stott Ave., Norwich, CT, in the amount of \$541,500. The mortgage has an annual initial interest rate of 3.78%, subject to adjustment at the end of five years. The adjusted rate will be 2.5% above the Index Rate, which is the 5 Year Federal Home Loan Bank Classic Advance Rate in effect on the first date of the adjustment period commencing subsequent to the proceeding sixty-month period. Unless paid sooner, all amounts owed under the Note shall be due and payable in full on June 30, 2026.

The balance remaining on the mortgage was \$314,377 and \$349,285 as of June 30, 2021 and 2020, respectively.

Estimated maturities are as follows for the years ending June 30,:

2022	\$ 54,686
2023	56,790
2024	58,974
2025	61,242
2026	82,685
	<u>\$ 314,377</u>

NOTE 13 – NATIONAL AFFILIATE

Easterseals is affiliated with Easterseals, Inc. and pays annual dues, which is included in membership fees in the statements of functional expenses. Dues expense amounted to \$53,372 and \$49,345 for the years ended June 30, 2021 and 2020, respectively.

NOTE 14 – CONCENTRATION OF REVENUES

Approximately 51% and 53% of total revenues and other support represents grants from state agencies for the years ended June 30, 2021 and 2020, respectively. If a reduction in the level of this support were to occur, there would be a significant impact on Easterseals’ operations.

NOTE 15 – PROGRAM SERVICE FEES

Easterseals disaggregates program service fees by type of program. Disaggregated revenue by program type is as follows for the years ended June 30,:

	2021	2020
Medical rehabilitation services	\$ 457,733	\$ 450,140
Vocational rehabilitation services	942,658	1,054,243
	<u>\$ 1,400,391</u>	<u>\$ 1,504,383</u>

NOTE 16 – RELATED PARTY TRANSACTIONS

In July 2020, with Board approval, Sadie Pants Investments, LLC (the “Company”), of which the Treasurer of the Board is a 50% owner, was hired to assist in the transition of the CEO position. The Company received compensation of \$184,607 for these services during the year ended June 30, 2021.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Revenue under third party payer agreements is subject to audit and retroactive adjustment. Provisions for estimated third party settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement. Management believes that the government reimbursement principles have been properly applied and that no material adjustments will occur as a result of an audit.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Easterseals believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

During the fiscal year ended June 30, 2017, the Department of Social Services (“DSS”) conducted an audit of claimed services rendered under the Medicaid Waiver Program by Easterseals for the period February 25, 2013 through February 24, 2016. Consequent to that audit, the Department determined an overpayment had occurred and following review and negotiation with Easterseals, the amount of final disallowance was determined by DSS as \$50,000. Easterseals established a liability account in that amount and has agreed to a recoupment plan over a period of 48 months which will deduct from Department of Developmental Services (“DDS”) monthly reimbursements the amount of \$1,026 in month one (September 2017) and \$1,042 per month thereafter (months 2-48). As of June 30, 2021 and 2020, \$12,504 and \$17,714 was owed to DDS, respectively, under this agreement. Per terms of the agreement, Easterseals is permitted to arrange an alternative payment methodology, including voluntary supplemental payments over and above the monthly installments.

Easterseals is, from time to time, subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of Easterseals.

NOTE 17 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

On October 31, 2020, the former President and Chief Executive Officer (“Former CEO”) of Easterseals resigned from the position of President and Chief Executive Officer. The Former CEO has remained as an Easterseals employee, taking on a role of grant writer while assisting with special projects as assigned to him by the current CEO. As part of the Former CEO’s employment contract effective July 1, 2018 through November 1, 2023, the Former CEO will be paid bi-weekly the sum of \$8,038 plus benefits including any Paid Time Off (PTO) owed at the termination of the contract which totals approximately \$205,682. In addition, the Former CEO’s spouse is entitled to health insurance benefits through November 1, 2026. All funds will be paid out with available cash flow.

NOTE 18 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were restricted for the following purposes at June 30.:

	2021	2020
Endowment held in perpetuity	\$ 937,454	\$ 937,454
Rally Point build out	1,238,957	-
Veterans and Military Families Services	776,266	440,351
Technology	-	45,000
Consulting - strategic planning	-	25,000
	<u>\$ 2,952,677</u>	<u>\$ 1,447,805</u>

Net assets were released from restrictions for the following purposes during the year ended June 30.:

	2021	2020
Endowment earnings	\$ 209,670	\$ 53,574
Veterans and Military Family Services	278,657	392,257
Technology	45,000	-
Consulting - strategic planning	25,000	-
Total net assets released from restriction	<u>\$ 558,327</u>	<u>\$ 445,831</u>

NOTE 19 – RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic. COVID-19 has caused significant disruption in the national and global economy. Easterseals’ operating activities, liquidity, cash flows, have been and may continue to be adversely affected by this global pandemic. While the disruption is currently expected to be temporary, there is uncertainty related to the duration. Therefore, while Easterseals expects this matter to negatively impact the operations, the related financial impact for the upcoming year cannot be reasonably estimated at this time.

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