

EASTER SEALS OF GREATER HOUSTON, INC.

**FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS**

DECEMBER 31, 2020 AND 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Easter Seals of Greater Houston, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Easter Seals of Greater Houston, Inc. (ESGH) (a Texas non-profit corporation), which comprise the statements of financial position as of December 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ESGH as of December 31, 2020 and 2019, and the changes in its nets assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *State of Texas Single Audit Circular*, we:

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

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

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and non-federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the *State of Texas Single Audit Circular*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2021, on our consideration of ESGH's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ESGH's internal control over financial reporting and compliance.



HARPER & PEARSON COMPANY, P.C.

Houston, Texas
July 24, 2021

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

ASSETS	2020	2019
ASSETS		
Cash and cash equivalents - unrestricted	\$ 8,767,373	\$ 56,315
Cash restricted for Caroline School	<u>1,214,594</u>	<u>704,334</u>
Total cash and cash equivalents	9,981,967	760,649
Accounts receivable	2,878,192	2,400,292
Contributions receivable	990,790	1,256,791
Other assets	13,597	17,378
Property and equipment, net	<u>92,053</u>	<u>107,713</u>
TOTAL ASSETS	<u>\$ 13,956,599</u>	<u>\$ 4,542,823</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 879,811	\$ 909,545
Deferred rent	420,596	316,369
Deferred revenue	1,474,653	-
Grant advances payable	-	801,248
Line of credit	-	300,000
Note payable, Paycheck Protection Program	<u>793,804</u>	<u>-</u>
TOTAL LIABILITIES	<u>3,568,864</u>	<u>2,327,162</u>
NET ASSETS		
Without donor restrictions	7,711,854	(481,592)
With donor restrictions	<u>2,675,881</u>	<u>2,697,253</u>
	<u>10,387,735</u>	<u>2,215,661</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,956,599</u>	<u>\$ 4,542,823</u>

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES AND SUPPORT		
Government grants	\$ 14,579,757	\$ 8,427,228
Contributions	8,443,288	916,512
Program service fees/third party reimbursement	8,931,651	9,073,257
Special events	598,984	791,939
Other income	<u>12,937</u>	<u>16,352</u>
	32,566,617	19,225,288
Net Assets Released from Restrictions	<u>1,360,131</u>	<u>1,855,244</u>
Total Revenues and Support	<u>33,926,748</u>	<u>21,080,532</u>
EXPENSES		
Program Services:		
Infant Development	13,493,513	13,604,475
Respite Care	2,225,510	2,177,556
Veterans	1,879,438	1,919,884
Disaster Relief	4,174,042	260,018
Adult Program	75,091	91,843
Bridging Apps	263,873	237,153
Camps and Case Management	548,479	641,173
Children's Therapy	799,689	727,572
High School/High Tech	125,534	131,025
Housing	627,654	375,024
The Caroline School	370,367	466,755
Toy Tech	19,332	46,027
Transition	<u>233,103</u>	<u>241,556</u>
Total program services	24,835,625	20,920,061
Management and general	427,101	400,030
Fundraising	<u>470,576</u>	<u>617,714</u>
Total Expenses	<u>25,733,302</u>	<u>21,937,805</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>8,193,446</u>	<u>(857,273)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	1,338,759	1,564,846
Net assets released from restrictions	<u>(1,360,131)</u>	<u>(1,855,244)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(21,372)</u>	<u>(290,398)</u>
CHANGE IN NET ASSETS	8,172,074	(1,147,671)
NET ASSETS, BEGINNING OF YEAR	<u>2,215,661</u>	<u>3,363,332</u>
NET ASSETS, END OF YEAR	<u>\$ 10,387,735</u>	<u>\$ 2,215,661</u>

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	2020								
	Programs						Management and General	Fundraising	TOTAL
	Infant Development	Respite Care	Veterans	Disaster Relief	Other Programs	Total Programs			
Salaries and benefits	\$ 12,061,020	\$ 338,347	\$ 1,135,211	\$ 181,764	\$ 1,962,491	\$ 15,678,833	\$ 281,670	\$ 324,563	\$ 16,285,066
Assistance to individuals	13,232	1,804,492	677,368	3,972,574	592,485	7,060,151	-	7,227	7,067,378
Professional fees	479,967	35,927	17,890	4,482	90,095	628,361	51,175	25,339	704,875
Occupancy	339,749	27,729	16,273	2,422	228,730	614,903	30,425	15,978	661,306
Mileage reimbursement	95,738	32	2,772	138	8,504	107,184	111	1,289	108,584
Supplies	89,626	3,583	7,387	10	49,215	149,821	14,809	21,977	186,607
Telephone	159,816	8,844	6,573	2,057	23,842	201,132	8,927	2,899	212,958
In-kind	19,849	-	2,500	5,000	42,698	70,047	-	22,460	92,507
Miscellaneous	52,920	150	191	-	3,971	57,232	5,218	23,478	85,928
Travel	18,647	84	2,473	-	7,957	29,161	3,296	1,076	33,533
Dues	61,323	1,404	3,369	1,592	14,037	81,725	7,050	9,307	98,082
Equipment rental	33,395	905	2,172	1,026	6,864	44,362	2,082	724	47,168
Insurance	51,163	1,590	3,142	1,427	10,453	67,775	665	1,172	69,612
Printing	1,736	-	688	70	740	3,234	1,647	10,041	14,922
Postage and shipping	11,485	2,064	1,429	1,480	4,818	21,276	-	3,046	24,322
Depreciation	3,847	359	-	-	16,222	20,428	7,818	-	28,246
Interest	-	-	-	-	-	-	12,208	-	12,208
Total Expenses	\$ 13,493,513	\$ 2,225,510	\$ 1,879,438	\$ 4,174,042	\$ 3,063,122	\$ 24,835,625	\$ 427,101	\$ 470,576	\$ 25,733,302

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019								
	Programs						Management and General	Fundraising	TOTAL
	Infant Development	Respite Care	Veterans	Disaster Relief	Other Programs	Total Programs			
Salaries and benefits	\$ 11,587,676	\$ 282,879	\$ 1,060,500	\$ 180,078	\$ 2,031,478	\$ 15,142,611	\$ 265,204	\$ 322,695	\$ 15,730,510
Assistance to individuals	40,943	1,775,404	713,636	59,143	321,062	2,910,188	-	1,003	2,911,191
Professional fees	624,048	63,085	16,525	3,290	132,778	839,726	24,885	26,356	890,967
Occupancy	344,467	25,409	16,120	4,051	232,875	622,922	28,077	16,172	667,171
Mileage reimbursement	404,226	275	9,976	1,659	33,291	449,427	575	2,212	452,214
Supplies	158,147	6,262	10,759	384	57,083	232,635	11,801	36,462	280,898
Telephone	151,946	3,451	7,811	2,825	25,095	191,128	3,495	2,854	197,477
Direct donor benefits	-	-	-	-	-	-	-	104,146	104,146
In-kind	28,704	14,334	66,458	1,250	48,148	158,894	-	56,325	215,219
Miscellaneous	45,464	20	250	35	1,384	47,153	3,221	17,835	68,209
Travel	48,252	61	10,964	2,307	27,199	88,783	7,416	9,560	105,759
Dues	66,467	1,402	2,919	2,143	12,050	84,981	3,846	4,098	92,925
Equipment rental	35,263	674	1,395	1,036	5,408	43,776	4,152	539	48,467
Insurance	40,569	1,073	2,076	1,665	7,628	53,011	643	858	54,512
Printing	9,845	281	198	70	2,134	12,528	653	12,490	25,671
Postage and shipping	12,222	2,587	297	82	5,408	20,596	4,273	4,109	28,978
Depreciation	6,236	359	-	-	15,107	21,702	6,030	-	27,732
Interest	-	-	-	-	-	-	35,759	-	35,759
Total Expenses	\$ 13,604,475	\$ 2,177,556	\$ 1,919,884	\$ 260,018	\$ 2,958,128	\$ 20,920,061	\$ 400,030	\$ 617,714	\$ 21,937,805

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 8,172,074	\$ (1,147,671)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	28,246	27,732
Paycheck Protection Program loan forgiveness	(2,095,696)	-
Accounts receivable	(477,900)	368,141
Contributions receivable	266,001	(92,999)
Other assets	3,781	25,509
Accounts payable and accrued liabilities	(29,734)	(113,797)
Deferred rent	104,227	119,108
Deferred revenue	1,474,653	-
Grant advance payable	(801,248)	301,088
Total adjustments	<u>(1,527,670)</u>	<u>634,782</u>
Net cash provided (used) by operating activities	<u>6,644,404</u>	<u>(512,889)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(12,586)</u>	<u>(22,163)</u>
Net cash used by investing activities	<u>(12,586)</u>	<u>(22,163)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	704,516	410,000
Payments on line of credit	(1,004,516)	(410,000)
Borrowings on note payable, Paycheck Protection Program	2,889,500	-
Payments on note payable	<u>-</u>	<u>(13,914)</u>
Net cash provided (used) by financing activities	<u>2,589,500</u>	<u>(13,914)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,221,318	(548,966)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>760,649</u>	<u>1,309,615</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 9,981,967</u>	<u>\$ 760,649</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 12,208</u>	<u>\$ 35,759</u>

See accompanying notes.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Easter Seals of Greater Houston, Inc. (ESGH) is a Texas nonprofit medical, educational, diagnostic and service institution founded in 1946 to serve individuals with all types of disabilities, as well as their families. ESGH offers a wide variety of programs in Houston and the surrounding counties.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk - Financial instruments which subject ESGH to concentrations of credit risk consist principally of cash, contributions receivable and accounts receivable. Cash is maintained with financial institutions in the United States. Deposits with financial institutions exceeded the amount of federal deposit insurance provided on such deposits (approximately \$9,894,000 at December 31, 2020); however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. In monitoring this credit risk, ESGH periodically evaluates the stability of the financial institutions.

No collateral or other security is required to support contributions receivable and accounts receivable. Management believes that all receivables are collectible; therefore, no allowance for doubtful accounts has been recorded. If amounts become uncollectible, they will be charged to operations when that determination is made. At December 31, 2020 and 2019, three donors accounted for 98% and 96% of contributions receivable, respectively. One governmental agency accounted for 44% of accounts receivable at December 31, 2020.

Cash and Cash Equivalents - For the purposes of the statement of cash flows, cash and cash equivalents include demand deposits and a money market account.

Accounts Receivable - Accounts receivable include amounts due from program service fees. At December 31, 2020 and 2019, all are due within one year.

Contributions Receivable - Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted, if material, to estimate the present value of future cash flows. Estimated discounts at December 31, 2020 and 2019 were considered immaterial.

Property and Equipment - Property and equipment are stated at cost or estimated fair market value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as support with donor restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as support without donor restrictions. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts and any gain or loss is included in the statements of activities.

Additions are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to the statements of activities as incurred.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Grant Advances Payable - Certain government grants contain provisions which allow for advances to be repaid throughout the grant period.

Deferred Revenue - Deferred revenue represents conditional promises to give which contain a measurable performance or other barrier and a right of return and are not recognized as support until the conditions on which they depend have been met. At December 31, 2021, the total deferred revenue balance relates to support for disaster relief efforts where the conditions had not been met. This amount was refunded to the donor in January 2021.

Contributions - All unconditional 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. However, if a restriction is fulfilled in the same time period in which the contribution is received, the organization reports as support without donor restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value. Unconditional promises to give that are expected to be collected after one year or more are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included as contribution revenue.

Donated Materials and Services - Donated materials and use of facilities are recorded as contributions at fair value when an unconditional commitment is received from the donor.

Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed material and services recognized by ESGH primarily include public service announcements, graphics, printed advertising space, billboards, website hosting and maintenance, and rent.

Program Service Fees and Government Grants - ESGH recognizes program service fee revenue when the services are rendered. Amounts are billed monthly and revenue is recorded at the expected net cash collection based on contractual rates.

Cost-reimbursable federal and state contracts and grants are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts awarded are recognized as revenue when ESGH has incurred expenditures in compliance with specific contract or grant provisions.

Functional Expenses - ESGH records expenses directly to the applicable program or support function as much as possible. Salaries and benefits are charged directly based on individual employee departmental classification. Occupancy expenses are allocated based on square footage. All other expenses which cannot be directly identified with a specific program or support function are allocated based on employee head count percentages.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Income Taxes - ESGH is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, ESGH is subject to taxes on unrelated business income. No unrelated business income tax was paid in 2020 and 2019.

ESGH believes that all significant tax positions utilized will more likely than not be sustained upon examination. As of December 31, 2020, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2017 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as general and administrative expense in the statement of activities.

Pending Accounting Standard Not Yet Adopted - In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, "*Leases (Topic 842)*". Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. The new standard is effective for the ESGH for the year beginning January 1, 2022. ESGH is currently evaluating the effect the provisions of ASU 2016-02 will have on the financial statements.

COVID-19 Pandemic - The COVID-19 pandemic that occurred during the year ended December 31, 2020 created economic uncertainties which could negatively impact future contributions. However, the impact and duration on ESGH cannot be reasonably estimated at this time. While ESGH experienced significant impact to operations due to COVID-19, ESGH was able to adapt to deal with the client, staff and financial impacts during the year ended December 31, 2020.

Subsequent Events - ESGH has evaluated subsequent events through July 24, 2021, the date the financial statements were available to be issued. Except for the renewal of the line of credit discussed in Note E, no subsequent events have occurred which require adjustment to or disclosure in the financial statements at December 31, 2020.

NOTE B LIQUIDITY AND AVAILABILITY

ESGH relies on program service revenues and contributions to support operations. To help manage unanticipated liquidity needs, ESGH has a committed line of credit in the amount of \$750,000 which it could draw upon. Additionally, ESGH has an operating Endowment for the Caroline School of \$1,214,999 and \$1,132,407 at December 31, 2020 and 2019, respectively. As part of the annual budget, ESGH appropriates amounts from the operating Endowment for general expenditures of The Caroline School. There were no funds appropriated from the Endowment for general operating expenditures of the Caroline School during 2020. During 2019, \$300,000 was appropriated from the Endowment for general operating expenditures of the Caroline School.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE B LIQUIDITY AND AVAILABILITY (CONTINUED)

Although ESGH does not intend to spend from its operating Endowment amounts in excess of those budgeted, the operating Endowment could be made available to ESGH for general operations, upon approval by the Board of Directors. No funds of the Caroline School operating Endowment were utilized for general operations during 2020. During 2019, \$247,954 of the funds of the Caroline School operating Endowment were utilized for general operations. When repaid, ESGH increased the operating Endowment by an amount equivalent to a reasonable rate of interest (5%).

The following reflects ESGH's financial assets as of the balance sheet date, including amounts not available within one year of the balance sheet date.

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents - unrestricted	\$ 8,767,373	\$ 56,315
Cash restricted for Caroline School	1,214,594	704,334
Accounts receivable	2,878,192	2,400,292
Contributions receivable	<u>990,790</u>	<u>1,256,791</u>
 Total financial assets	 <u>13,850,949</u>	 <u>4,417,732</u>
 Less amounts not available to be used within one year:		
Long-term contributions receivable	90,000	190,000
Caroline School operating endowment	<u>1,214,999</u>	<u>1,132,407</u>
	 <u>1,304,999</u>	 <u>1,322,407</u>
 Financial assets available to meet general expenditures over the next twelve months	 <u>\$ 12,545,950</u>	 <u>\$ 3,095,325</u>

NOTE C CONTRIBUTIONS RECEIVABLE

The table below sets forth contributions receivable at December 31:

	<u>2020</u>	<u>2019</u>
Receivable in one year or less	\$ 900,790	\$ 1,066,791
Receivable in one to five years	<u>90,000</u>	<u>190,000</u>
 Total contributions receivable	 <u>\$ 990,790</u>	 <u>\$ 1,256,791</u>

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE D PROPERTY AND EQUIPMENT

Estimated useful lives and cost of property and equipment are as follows:

	Lives	2020	2019
Furniture and equipment	3 - 7 yrs.	\$ 306,391	\$ 293,806
Leasehold improvements	4 - 5 yrs.	74,574	74,574
		380,965	368,380
Less accumulated depreciation		(288,912)	(260,667)
		\$ 92,053	\$ 107,713

NOTE E LINE OF CREDIT

ESGH has a \$750,000 line of credit from a bank which bears interest at prime rate plus .5% subject to a floor of 4.25%. Borrowings are limited to 70% of accounts receivable less than sixty days old and are secured by essentially all assets of ESGH. The line of credit matured on June 1, 2021 and was renewed through June 1, 2022 with similar terms. There were no outstanding borrowings on the line of credit as of December 31, 2020.

NOTE F NOTE PAYABLE, PAYCHECK PROTECTION PROGRAM

On April 16, 2020, ESGH received a U.S. Small Business Administration Loan (SBA Loan) from a financial institution, pursuant to the Paycheck Protection Program (PPP) established under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), in the amount of \$2,889,500. Under the terms of the PPP, the principal balance of the loan is subject to partial or full forgiveness contingent on compliance with certain criteria.

ESGH elected to treat the PPP loan forgiveness as a conditional contribution in accordance with ASC Topic 958-605, Not-for-Profit Entities – Revenue Recognition. Under this model, a conditional contribution is not recognized until the conditions are substantially met or conditionally waived. ESGH has completed the application for loan forgiveness and determined that it has substantially met the criteria for partial loan forgiveness in the amount of \$2,095,696. The loan forgiveness is recognized as government grants in the statement of activities during the year ended December 31, 2020. The unforgiven portion of the SBA Loan, totaling \$793,804 is payable over two years beginning August 2021 at an annual interest rate of 1% per annum. The note may be prepaid by ESGH at any time prior to maturity with no prepayment penalties.

2021	\$ 435,822
2022	357,982
Total	\$ 793,804

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE G NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

	<u>2020</u>	<u>2019</u>
Adult Program	\$ -	\$ 2,500
Bridging Apps	50,171	83,084
Camps and Case Management	138,560	171,392
The Caroline School	-	14,500
Caroline School Operating Endowment	1,214,999	1,132,407
Children's Therapy	47,671	66,168
Disaster Relief	196,135	100,000
High School/High Tech	106,257	72,148
Housing	85,723	116,804
Infant Development	449,203	538,762
Respite Care	104,836	126,104
Special Events to be held in the future	36,718	47,837
Toy Tech	60,008	49,084
Transition	23,334	-
Veterans	<u>162,266</u>	<u>176,463</u>
	<u>\$ 2,675,881</u>	<u>\$ 2,697,253</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2020</u>	<u>2019</u>
Adult program	\$ 2,500	\$ -
Bridging Apps	52,584	60,019
Camps and Case Management	133,392	130,003
Children's Therapy	66,168	59,124
Caroline School	14,500	2,000
Caroline School Operating Endowment	-	300,000
Disaster Relief	100,000	235,021
High School/High Tech	60,148	57,892
Housing	111,304	66,811
Infant Development	527,762	550,583
Respite Care	118,104	123,110
Special Events	47,837	121,364
Toy Tech	19,369	24,581
Transition	-	92,736
Veterans	<u>106,463</u>	<u>32,000</u>
	<u>\$ 1,360,131</u>	<u>\$ 1,855,244</u>

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE H OPERATING LEASES AND COMMITMENTS

ESGH leases office space and equipment under operating leases through 2027 and utilizes proprietary software under an annual contract. Future payments by fiscal year are as follows:

2021	\$ 500,817
2022	600,521
2023	590,487
2024	582,819
2025	591,898
Thereafter	<u>1,237,600</u>
	<u>\$ 4,104,142</u>

Total expense under these contracts amounted to \$703,635 and \$702,740 for the years ended December 31, 2020 and 2019, respectively.

NOTE I CAROLINE SCHOOL OPERATING ENDOWMENT

ESGH established an operating endowment for the Caroline School (the School). Earnings from the operating endowment may be used for ordinary operations of the School. The Board of Directors must approve the amount of operating expenditures to be paid from the operating endowment. The principal of the operating endowment may also be used for special projects or unexpected expenses of the School after approval by a majority of the Board of Directors.

Based on the interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), all net assets of the operating endowment that are not permanently restricted by donors are deemed to be temporarily restricted until appropriated for expenditure. As of December 31, 2020 and 2019, no permanently restricted contributions have been received.

Changes in the operating endowment net assets are as follows:

Endowment net assets, December 31, 2018	\$ 1,432,407
Contributions	-
Appropriations	<u>(300,000)</u>
Endowment net assets, December 31, 2019	1,132,407
Contributions	82,592
Appropriations	<u>-</u>
Endowment net assets, December 31, 2020	<u>\$ 1,214,999</u>

NOTE J AFFILIATION WITH EASTER SEALS, INC.

ESGH is voluntarily affiliated with Easter Seals, Inc. ESGH paid to Easter Seals Inc. dues amounting to \$72,640 and \$70,943 during 2020 and 2019, respectively.

NOTE K INSURANCE

ESGH is covered by commercial, professional and automobile liability insurance through October 2021. Coverage limits range from \$1,000,000 maximum for each occurrence up to \$3,000,000 in the aggregate. Workman's compensation and employer's liability insurance is also effective through October 2021 with a \$1,000,000 policy limit.

NOTE L BENEFIT PLAN

ESGH has established a defined contribution plan under Section 403(b) of the Internal Revenue Code of 1986 ("403(b) plan") covering substantially all of its employees who have completed one year of service. Employees of ESGH can annually elect to contribute to the 403(b) plan the maximum amount allowed by the Internal Revenue Code. ESGH's matching policy is to contribute at a rate equal to 100% of the amount the participating employee has contributed, not to exceed 3% of the employee's annual salary. For the years ended December 31, 2020 and 2019, ESGH contributed \$315,881 and \$288,523, respectively to the 403(b) plan.

NOTE M CONTINGENCY

The majority of the government grants are received either directly from or are passed through the Texas Department of Health and Human Services Division of Early Childhood Intervention Services. Amounts received from government and other grants require the fulfillment of certain conditions as set forth in the grant contracts. ESGH intends to fulfill the conditions of all grants, recognizing that failure to fulfill the conditions could result in the return of the funds to grantors. Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, could become a liability of ESGH. In management's opinion, disallowed claims, if any, would not have a material adverse effect on ESGH's financial position or results of operations.

SINGLE AUDIT REPORTS

EASTER SEALS OF GREATER HOUSTON, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020

Federal Grantor/Pass-through Grantor/ Program or Cluster Title and Non-Federal Grantor	Federal Assistance Listing Number	Identifying Number	Federal and Non-Federal Expenditures
Federal Awards:			
U.S. Department of Education; Office of Special Education and Rehabilitative Services			
Passed through Texas Health and Human Services Commission Division for Early Childhood Intervention Services			
Special Education-Grants to States	84.027	HHS000640200038	\$ 175,842
Special Education-Grants for Infants and Families	84.181	HHS000640200038	<u>4,616,420</u>
Total U.S. Department of Education			<u>4,792,262</u>
U.S. Department of Health and Human Services; Administration for Children and Families			
Passed through Texas Health and Human Services Commission Division for Early Childhood Intervention Services			
Temporary Assistance for Needy Families	93.558	HHS000640200038	<u>608,067</u>
Total U.S. Department of Health and Human Services			<u>608,067</u>
U.S. Department of Housing and Urban Development; Office of Housing and Counseling			
Housing Counseling Assistance Program	14.169	HC200821009	32,427
U.S. Department of Housing and Urban Development; Office of Community Planning and Development			
Passed through Montgomery County, Texas Home Investment Partnerships Program	14.239	M-20-UC-48-0235	<u>548,794</u>
Total U.S. Department of Housing and Urban Development			<u>581,221</u>
U.S. Department of Agriculture Food and Nutrition Service			
Passed through Texas Health & Human Services Commission, State Administrative Matching Grants			
Supplemental Nutrition Assistance Program	10.561	5382001552-01	<u>21,717</u>
Total U.S. Department of Agriculture Food and Nutrition Service			<u>21,717</u>

See accompanying note to schedule of expenditures of federal and non-federal awards.

**EASTER SEALS OF GREATER HOUSTON, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

Federal Grantor/Pass-through Grantor/ Program or Cluster Title and Non-Federal Grantor	Federal Assistance Listing Number	Identifying Number	Federal and Non-Federal Expenditures
Continued			
U.S. Department of Justice; Office of Juvenile Justice and Delinquency Prevention			
Passed through the Institute for Educational Leadership Juvenile Mentoring Program	16.726	2019-JU-FX-0012	<u>66,336</u>
Total U.S. Department of Justice			<u>66,336</u>
Total expenditures of federal awards			<u>\$ 6,069,603</u>
Non-Federal Awards:			
Texas Health and Human Services Commission Division for Early Childhood Intervention Services			
Special Education-Grants to States	N/A	HHS000640200038	\$ 968,437
Special Education-Grants to States	N/A	HHS000640200038	<u>11,946</u>
Total Division for Early Childhood Intervention Services			<u>980,383</u>
Texas Veterans + Family Alliance Grant Program	N/A	HHS000329700010	<u>1,377,214</u>
Total Texas Veterans + Family Alliance Grant Program			<u>1,377,214</u>
Total Texas Health and Human Services Commission			<u>2,357,597</u>
Texas Veterans Commission			
Mental Health Services for Veterans	N/A	GT-VMH20-021	<u>309,911</u>
Total Texas Veterans Commission			<u>309,911</u>
Brazos County	N/A	none	<u>35,000</u>
Total Brazos County			<u>35,000</u>
Total expenditures of non-federal awards			<u>\$ 2,702,508</u>

See accompanying note to schedule of expenditures of federal and non-federal awards.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS
DECEMBER 31, 2020

NOTE A BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal and non-federal awards includes the federal and non-federal grant activity of Easter Seals of Greater Houston, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, and the State of Texas Single Audit Circular*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

ESGH has elected not to use the 10% de minimis indirect cost rate allowed under the *Uniform Guidance*.

**EASTER SEALS OF GREATER HOUSTON, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Easter Seals of Greater Houston, Inc.
2. No material weaknesses in internal controls over financial reporting were identified.
3. No instances of noncompliance material to the financial statements of Easter Seals of Greater Houston, Inc. were disclosed during the audit.
4. No material weaknesses or significant deficiencies over the internal controls over major programs were identified.
5. The auditor's report issued on compliance for each major federal and non-federal award program for Easter Seals of Greater Houston, Inc. expresses an unmodified opinion.
6. The auditor disclosed no findings relating to major programs that are required to be reported in accordance with 2CFR Section 200.516(a).
7. The programs tested as major programs include:

	CFDA Number
Federal Awards:	
U.S. Department of Education; Office of Special Education and Rehabilitative Services Passed through Texas Health and Human Services Commission Division for Early Childhood Intervention Services	
Special Education-Grants for Infants and Families	84.181
Special Education-Grants to States	93.558
Non-Federal Awards:	
Texas Health and Human Services Commission	
Division for Early Childhood Intervention Services	
Special Education-Grants to States	N/A
Texas Veterans & Family Alliance	N/A
8. The threshold used for distinguishing between Type A and B programs was \$750,000 for both federal and non-federal awards.
9. Easter Seals of Greater Houston, Inc. does not qualify as a low-risk auditee.

SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT

None

SECTION III - FEDERAL AND NON-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

Easter Seals of Greater Houston
Update on 2019/Prior Year Audit Findings
Year Ended December 31, 2020

DEPARTMENT OF HEALTH AND HUMAN SERVICES

FINDING 2019-1: Recording Support and Revenue

Condition: For the year ended December 31, 2019, a contribution to be received in future years was not recorded timely. In addition, certain unbilled program service fees were not recorded as revenue when earned, but rather were recorded when invoiced. Management detected and corrected the revenues as part of a reconciliation prepared in June.

Recommendation: The auditor recommended development of procedures to ensure communication between the development and billing departments and accounting to allow for proper recording of contributions and program service fees.

Current Status: A process has been developed whereby the CEO and CFO perform regular reviews of grant activity to ensure copies of all agreements have been provided and activity properly recorded. In addition, two controls were revised. First, the CEO, CFO and Director of Development will meet throughout the year to review contribution activity to ensure proper recording and classification within the accounting records. Second, the control providing for quarterly review of program service billing activity has been increased to a monthly review by the CFO.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

FINDING 2019-2: Procurement Policy

Condition: The procurement policy for Easter Seals of Greater Houston states a micro purchase threshold of \$15,000 which is greater than the threshold allowed.

Recommendation: The auditor recommended revision of our procurement policy with respect to the micro purchase threshold to align with the Uniform Guidance and develop procedures to ensure that procurement policies are routinely verified for compliance with federal and non-federal grantor requirements.

Current Status: In November of 2020, the State of Texas issued updated Texas Grant Management Standards ("TxGMS") which applies to grants and contracts that begin on or after January 1, 2022, but could be adopted early. Easter Seals receives funding from various governmental entities and in order to ensure compliance with procurement standards, updated our procurement standards to be in line with the new TxGMS as it is the most restrictive. As of December 2020, Easter Seal's threshold for micro purchases has been updated to \$3,000. From January to November 2020, the agency followed the Uniform Guidance.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Easter Seals of Greater Houston, Inc.
Houston, Texas

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *State of Texas Single Audit Circular*, the financial statements of Easter Seals of Greater Houston, Inc. (ESGH, a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 24, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ESGH's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ESGH's internal control. Accordingly, we do not express an opinion on the effectiveness of ESGH's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of ESGH's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in dark red ink that reads "Harper & Pearson Company, P.C." in a cursive script.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
July 24, 2021

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Easter Seals of Greater Houston, Inc.
Houston, Texas

Report on Compliance for Each Major Program

We have audited Easter Seals of Greater Houston, Inc.'s (ESGH) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of ESGH's major federal and non-federal programs for the year ended December 31, 2020. ESGH's major federal and non-federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal and non-federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the ESGH's major federal and non-federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State of Texas Single Audit Circular*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the ESGH's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and non-federal program. However, our audit does not provide a legal determination of ESGH's compliance.

Opinion on Each Major Federal and Non-Federal Programs

In our opinion, ESGH complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and non-federal programs for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of ESGH is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ESGH's internal control over compliance with the types of requirements that could have a direct and material effect on each major program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *State of Texas Single Audit Circular*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ESGH's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or non-federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or non-federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

Purpose of this Report

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

A handwritten signature in dark ink that reads "Harper & Pearson Company, P.C." in a cursive script.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
July 24, 2021