



**Easter Seals Arkansas**

**CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2016 and 2015**

**(With Independent Auditor's Report Thereon)**

**Thomas &  
Thomas LLP**  

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Certified Public Accountants

# Easter Seals Arkansas

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Easter Seals Arkansas  
Little Rock, Arkansas

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **Easter Seals Arkansas** and affiliates (collectively, "**the Organization**"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of the consolidated 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to on the preceding page present fairly, in all material respects, the financial position of **Easter Seals Arkansas** and affiliates as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2016 on our consideration of the Organization's internal control over financial reporting and on 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 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 the Organization's internal control over financial reporting and compliance.

*Thomas & Thomas LLP*

Certified Public Accountants

December 8, 2016  
Little Rock, Arkansas

## **Consolidated Financial Statements**

# Easter Seals Arkansas

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents - unrestricted	\$ 2,111,357	\$ 1,907,691
Cash and cash equivalents - restricted	423,378	369,198
Investments	719,992	700,232
Grants and contracts receivable, net	1,368,190	1,117,828
Contributions receivable, net	109,300	355,238
Other receivables	1,952	29,603
Prepaid expenses and other assets	240,156	71,010
Property and equipment, net	<u>22,059,555</u>	<u>22,100,076</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 27,033,880</u></u>	<u><u>\$ 26,650,876</u></u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 297,327	\$ 575,755
Accrued expenses and other liabilities	1,537,561	1,359,940
Capital lease obligations	250,147	-
Long-term obligations	<u>5,084,053</u>	<u>5,490,143</u>
<b>Total Liabilities</b>	<u>7,169,088</u>	<u>7,425,838</u>
 <b>Net Assets</b>		
Unrestricted	14,853,382	14,209,189
Temporarily restricted	4,936,313	4,940,752
Permanently restricted	<u>75,097</u>	<u>75,097</u>
<b>Total Net Assets</b>	<u>19,864,792</u>	<u>19,225,038</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 27,033,880</u></u>	<u><u>\$ 26,650,876</u></u>

See accompanying notes to consolidated financial statements.

# Easter Seals Arkansas

## CONSOLIDATED STATEMENTS OF ACTIVITIES Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>Support, Revenue, Gains (Losses) and Reclassifications</b>		
<b>Fees and Grants from Government Agencies</b>		
Medicaid	\$ 17,757,579	\$ 16,878,783
Other federal awards	1,756,561	1,690,640
State assistance	281,893	363,885
<b>Public Support</b>		
Contributions	667,820	688,501
Special events	733,020	754,487
Net assets released from restrictions	18,495	2,793
<b>Other</b>		
Private pay and insurance	592,465	1,054,177
Workshop fees	202,989	319,530
Contract service fees	450,296	580,831
Rental income	151,528	116,942
Investment income	14,001	12,033
(Loss) gain on disposals of property and equipment	(12,253)	4,844
Net depreciation in fair value of investments	(15,737)	(7,178)
Miscellaneous	7,135	4,059
<b>Total Unrestricted Support, Revenue, Gains (Losses) and Reclassifications</b>	<u>22,605,792</u>	<u>22,464,327</u>
<b>Expenses</b>		
<b>Program Services</b>		
Children	10,938,939	11,022,708
Adult	8,255,444	8,054,714
	<u>19,194,383</u>	<u>19,077,422</u>
<b>Supporting Services</b>		
Administration	2,043,408	2,306,095
Fundraising	662,408	644,101
	<u>2,705,816</u>	<u>2,950,196</u>
<b>Total Expenses</b>	<u>21,900,199</u>	<u>22,027,618</u>
<b>Increase in Unrestricted Net Assets</b>	<u>705,593</u>	<u>436,709</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
<b>Public Support</b>		
Contributions	10,000	1,604,100
Net appreciation (depreciation) in fair value of investments	4,056	(6,475)
Net assets released from restrictions	(18,495)	(2,793)
<b>(Decrease) Increase in Temporarily Restricted Net Assets</b>	<u>(4,439)</u>	<u>1,594,832</u>
<b>OTHER CHANGES</b>		
Remittance of excess residual receipts to HUD	(61,400)	-
<b>INCREASE IN TOTAL NET ASSETS</b>	639,754	2,031,541
<b>NET ASSETS, BEGINNING OF YEAR</b>	19,225,038	17,193,497
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 19,864,792</u>	<u>\$ 19,225,038</u>

See accompanying notes to consolidated financial statements.

# Easter Seals Arkansas

## CONSOLIDATED STATEMENTS OF CASH FLOWS Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in Total Net Assets	\$ 639,754	\$ 2,031,541
<b>Adjustments to Reconcile Changes in Net Assets     to Net Cash Provided by Operating Activities</b>		
Depreciation and amortization expense	752,203	711,061
Contributed property and equipment	-	(7,000)
Loss (gain) on disposals of property and equipment	12,253	(4,844)
Net depreciation in fair value of investments	11,681	13,653
Changes in operating assets and liabilities:		
Grants and contracts receivable	(250,362)	178,321
Contributions receivable	245,938	88,227
Other receivables	27,651	9,741
Prepaid expenses and other assets	(169,146)	(35,115)
Accounts payable	(278,428)	15,849
Accrued expenses and other liabilities	177,621	94,434
<b>Net Cash Provided by Operating Activities</b>	<u>1,169,165</u>	<u>3,095,868</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of property and equipment	136,000	4,844
Purchases of property and equipment	(542,713)	(1,478,148)
Purchases of investments	(96,266)	(419,355)
Proceeds from sales and maturities of investments	64,825	28,010
<b>Net Cash Used by Investing Activities</b>	<u>(438,154)</u>	<u>(1,864,649)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on capital lease obligations	(67,075)	-
Payments on long-term obligations	(406,090)	(565,901)
<b>Net Cash Used by Financing Activities</b>	<u>(473,165)</u>	<u>(565,901)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	257,846	665,318
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,276,889</u>	<u>1,611,571</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,534,735</u>	<u>\$ 2,276,889</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Purchases of property and equipment included in accounts payable and capital leases	<u>\$ 317,222</u>	<u>\$ 244,308</u>
Interest expense incurred and paid	<u>\$ 212,361</u>	<u>\$ 215,792</u>

See accompanying notes to consolidated financial statements.



# **Easter Seals Arkansas**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** **June 30, 2016 and 2015**

### **NOTE 1: NATURE OF ACTIVITIES**

These consolidated financial statements include the accounts of Easter Seals Arkansas (ESA), a nonprofit corporation serving children and adults with disabilities throughout the state of Arkansas, and its affiliates, which include Easter Seals Arkansas Foundation (the Foundation), Armistead Apartments, Inc. (Armistead), Charlotte Gardens, Inc. (Charlotte Gardens), Wilson Court II and Harold Court (collectively, "the Organization").

The Foundation, a nonprofit corporation, was established to foster, support and encourage the activities of ESA. Armistead, Charlotte Gardens, Wilson Court II and Harold Court, also nonprofit corporations, were established to provide housing facilities located in Little Rock, Arkansas, for low-income persons with disabilities and operate under the terms of agreements with the U.S. Department of Housing and Urban Development (HUD). ESA has the ability to exercise control over and has an economic interest in each of these affiliated corporations.

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Basis of Accounting**

The consolidated financial statements of the Organization have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. All significant transactions and balances between affiliated entities have been eliminated.

#### **(b) Basis of Presentation**

The Organization is required to report information regarding its consolidated financial position and activities according to three classes of net assets - unrestricted, temporarily restricted and permanently restricted, as applicable.

#### **(c) Use of Estimates**

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

#### **(d) Cash and Cash Equivalents**

Cash and cash equivalents include demand deposit accounts held at financial institutions and money market mutual funds maintained in brokerage accounts held with investment banking firms. Money market mutual funds held with investment banking firms are not insured by the Federal Deposit Insurance Corporation (FDIC), but may be covered through insurance provided by the Securities Investor Protection Corporation (SIPC).

# Easter Seals Arkansas

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(d) Cash and Cash Equivalents (Continued)**

At times during 2016 and 2015, cash and cash equivalent balances held with financial institutions and investment banking firms exceeded the amounts insured by the FDIC and SIPC and were not collateralized. In the event of an institutional failure, account balances exceeding FDIC or SIPC insurance may not be recoverable. At June 30, 2016 and 2015, the Organization's account balances totaled approximately \$2,687,000 and \$2,599,000, respectively. Of these balances, approximately \$1,205,000 and \$846,000 at June 30, 2016 and 2015, respectively, were not insured by the FDIC or SIPC, nor were they collateralized.

#### **(e) Investments**

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. See Note 5 for further discussion of fair value measurements.

Net appreciation (depreciation) in fair value of investments reported on the consolidated statements of activities includes realized and unrealized gains and losses on investments bought and sold, as well as those held during the year. Purchases and sales are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

#### **(f) Property and Equipment, Net**

Purchased property and equipment are recorded at historical cost, while contributed property and equipment are recorded at their estimated fair value at the date of receipt. Contributions of property and equipment are reported as unrestricted support, unless the donor has restricted the use of the contributed asset for specific purposes. Major renewals and improvements are capitalized, while normal repairs and maintenance are expensed in the period incurred. Depreciation and amortization expense is computed using the straight-line basis over the estimated useful lives of the respective assets. Useful lives range from ten to forty years for buildings and improvements and five to ten years for furniture, equipment and vehicles.

#### **(g) Contributions**

Contributions, including unconditional promises to give, are recognized as support in the consolidated statements of activities in the period received or when the Organization becomes aware that a promise to give has been made, whichever occurs first.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the consolidated statements of activities as net assets released from restrictions.

# Easter Seals Arkansas

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(g) Contributions (Continued)**

Contributions receivable as of June 30, 2016 and 2015 consist of unconditional promises to give and are considered by management to be fully collectible. Contributions that are expected to be collected in future years are discounted to their estimated present value on the date the gift was made. Amortization of the discount is recorded as additional support over the period of collection.

#### **(h) Revenue Recognition**

Federal awards and state assistance are recognized as revenue on a reimbursement of expense basis. Contractual fees for services are recognized as revenue when the related service is provided. Receivables from federal and state agencies represent amounts requested for reimbursement for allowable expenses incurred in excess of grant funds received or for contractual services that have been provided but for which the Organization has not received compensation. Grant awards are classified as refundable advances to the extent that funds are received before they are expended for their intended purpose or before the required service is provided. Any such amounts are included in accrued expenses and other liabilities on the consolidated statements of financial position.

#### **(i) Allowance for Uncollectible Grants and Contracts Receivable**

Allowances for uncollectible grants and contracts receivable are based upon management's analysis of specific accounts, anticipated collections and related historical trends for write-offs of these receivables. Changes in the allowance for uncollectible Medicaid receivables are netted against Medicaid revenues for purposes of presentation in the consolidated financial statements. Changes in the allowance for other uncollectible grants and contracts receivable are included in the appropriate related expenses. Management does not anticipate material losses on these receivables in excess of established allowances.

#### **(j) Donated Services and Materials**

Donated services are recognized as contributions only if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization. Although many volunteers have donated significant amounts of their time to the Organization's program services and fundraising activities, the value of such donated services has not been recognized in the consolidated financial statements as the recognition criteria was not met.

The Organization receives donated items for use in its program services and special events. These contributions are reflected as support and expense in the consolidated financial statements based upon their estimated fair values during the period of use. The value of donated items included in the consolidated financial statements for the years ended June 30, 2016 and 2015 is approximately \$79,400 and \$103,000, respectively.

# Easter Seals Arkansas

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2016 and 2015

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **(k) Functional Expenses**

The Organization allocates its expenses on a functional basis among various programs and supporting services. Expenses that can be identified with a specific program or supporting service are recorded directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated to the Organization's programs using various statistical bases.

Expenses associated with certain activities and functions necessary for the support of programs provided by the Organization are reported as supporting services expenses. Supporting services include costs associated with general and administrative functions of the Organization and fundraising activities.

#### **(l) Income Taxes**

ESA, the Foundation, Armistead, Charlotte Gardens, Wilson Court II and Harold Court are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and are not private foundations.

Accounting standards require the Organization to evaluate its tax positions and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Organization has analyzed the tax positions taken and has concluded that as of June 30, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require the recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Organization may be subject to audit by the Internal Revenue Service; however there are currently no audits for any tax periods in progress.

#### **(m) Recently Issued Accounting Standards**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The purpose of ASU No. 2016-14 is to amend existing financial reporting standards applicable to not-for-profit entities to improve the usefulness, relevance and clarity of information presented in financial statements and to enhance the information presented in the notes thereto. This new standard, which becomes effective for fiscal years beginning after December 15, 2017, requires the following:

- Presentation of two classes of net assets – net assets with donor restrictions and net assets without donor restrictions.
- Elimination of the requirement to present a reconciliation of cash flows using the indirect method if the organization elects to use the direct method for purposes of preparing the statement of cash flows.
- Enhanced disclosures about governing board designations and other self-imposed limits on the use of resources, as well as the composition of net assets with donor restrictions at the end of the period and how those restrictions affect the use of resources.

# Easter Seals Arkansas

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2016 and 2015

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (m) Recently Issued Accounting Standards (Continued)

- New disclosures containing qualitative information communicating how liquid resources are managed to meet cash needs for general expenditures within one year of the financial reporting date and quantitative information communicating the availability of resources to meet cash needs for general expenditures within one year of the financial reporting date.
- Presentation of expenses by natural and functional classification, either on the statement of activities, in a separate statement or in the notes to the financial statements.
- Reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhanced disclosures about underwater endowments.
- Enhanced disclosures about the method(s) used to allocate costs among program and support functions.
- Reporting of investment return net of external and direct internal investment expenses.

While this new standard will significantly impact the presentation of the consolidated financial statements and the content of disclosures in the notes to the consolidated financial statements, it is not expected to have a material impact on the recording or measurement of amounts presented therein.

### NOTE 3: RESTRICTED CASH AND CASH EQUIVALENTS

#### Bond Reserve Accounts Held with Trustee

As required under the Trust Indenture executed in connection with the issuance of bonds described in Note 9, the Organization maintains certain accounts with a third party trustee as follows:

#### (a) Bond Funds

The bond funds include resources accumulated for the payment of principal and interest on outstanding bonds.

#### (b) Debt Service Reserve Funds

The debt service reserve funds include additional resources segregated to pay scheduled principal and interest payments in the event that sufficient resources are not available in the bond funds.



# Easter Seals Arkansas

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2016 and 2015

### NOTE 3: RESTRICTED CASH AND CASH EQUIVALENTS (Continued)

#### (c) Debt Service Reserve Funds (Continued)

Balances in these accounts, which are held with the trustee in demand deposit accounts and certificates of deposits, are not available for general operating purposes. The balances are as follows at June 30:

	2016	2015
Bond funds	\$ 93,550	\$ 341
Debt service reserve funds	157,775	156,898
	<u>\$ 251,325</u>	<u>\$ 157,239</u>

#### HUD Accounts

The Organization maintains deposit accounts as required by HUD to accumulate resources for building maintenance, replacement of property and other allowable expenses specified by HUD. Balances accumulated in these accounts may not be spent without HUD approval. Balances in these accounts totaled approximately \$172,000 and \$212,000 at June 30, 2016 and 2015, respectively.

### NOTE 4: INVESTMENTS

The following summarizes the estimated fair values of the Organization's investments at June 30:

	2016	2015
Mutual funds	\$ 579,362	\$ 563,076
Exchange traded funds	68,238	69,898
Equity securities	72,392	67,258
	<u>\$ 719,992</u>	<u>\$ 700,232</u>

### NOTE 5: FAIR VALUE MEASUREMENTS

The framework for measuring fair value 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) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described below:

- Level 1      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

## Easter Seals Arkansas

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2016 and 2015

#### **NOTE 5: FAIR VALUE MEASUREMENTS (Continued)**

Level 2 Inputs to the valuation methodology include the following:

- 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 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Organization uses appropriate valuation techniques based on available inputs to measure the fair value of assets. When available, the Organization measures fair value using Level 1 inputs, because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in valuation methodologies used during the years ended June 30, 2016 and 2015.

The fair values of mutual funds are determined based on the net asset value of shares held by the Organization at year end. Mutual funds held by Organization are open ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

The fair values of exchange traded funds and equity securities are determined based on closing prices reported on the active market in which the individual securities are traded.

The preceding methods described may produce a fair value estimate that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management of the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

# Easter Seals Arkansas

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

### NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

	June 30, 2015			
	Fair Value	Level 1	Level 2	Level 3
Mutual funds:				
Short-term bonds	\$ 54,658	\$ 54,658	\$ -	\$ -
Large Value	51,619	51,619	-	-
Ultrashort Bond	114,611	114,611	-	-
Energy Limited Partnership	32,899	32,899	-	-
Corporate bonds	55,918	55,918	-	-
Small growth	31,388	31,388	-	-
Large growth	11,719	11,719	-	-
Small value	5,415	5,415	-	-
Mid-cap value	23,768	23,768	-	-
Diversified emerging markets	6,338	6,338	-	-
Foreign small growth	3,180	3,180	-	-
Foreign large blend	3,164	3,164	-	-
World bond	7,231	7,231	-	-
Large blend	19,208	19,208	-	-
Europe stock	4,875	4,875	-	-
Bank loans	6,413	6,413	-	-
Nontraditional bond	2,435	2,435	-	-
High-yield bond	11,909	11,909	-	-
Multisector bond	16,735	16,735	-	-
Intermediate term bond	24,920	24,920	-	-
World allocation	21,593	21,593	-	-
Moderate allocation	15,284	15,284	-	-
Mid-cap blend	26,369	26,369	-	-
Aggressive allocation	11,427	11,427	-	-
Total mutual funds	<u>563,076</u>	<u>563,076</u>	<u>-</u>	<u>-</u>
Exchange traded funds	<u>69,898</u>	<u>69,898</u>	<u>-</u>	<u>-</u>
Equity securities:				
Basic materials	37,895	37,895	-	-
Financial	10,654	10,654	-	-
Healthcare	13,654	13,654	-	-
Services	1,256	1,256	-	-
Technology	3,799	3,799	-	-
Total equity securities	<u>67,258</u>	<u>67,258</u>	<u>-</u>	<u>-</u>
	<u>\$ 700,232</u>	<u>\$ 700,232</u>	<u>\$ -</u>	<u>\$ -</u>



# Easter Seals Arkansas

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

### NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

The fair values of the Organization's assets measured at fair value on a recurring basis at June 30 are as follows:

	June 30, 2016			
	Fair Value	Level 1	Level 2	Level 3
Mutual funds:				
Short-term bonds	\$ 59,802	\$ 59,802	\$ -	\$ -
Large Value	64,802	64,802	-	-
Ultrashort Bond	114,410	114,410	-	-
Energy Limited Partnership	13,248	13,248	-	-
Corporate bonds	55,717	55,717	-	-
Small growth	30,842	30,842	-	-
Large growth	16,648	16,648	-	-
Small value	7,769	7,769	-	-
Mid-cap value	20,424	20,424	-	-
Diversified emerging markets	5,751	5,751	-	-
Foreign small growth	4,311	4,311	-	-
Foreign large blend	4,284	4,284	-	-
World bond	11,189	11,189	-	-
Large blend	25,129	25,129	-	-
Europe stock	4,218	4,218	-	-
Bank loans	6,392	6,392	-	-
Nontraditional bond	2,347	2,347	-	-
High-yield bond	13,431	13,431	-	-
Multisector bond	16,866	16,866	-	-
Intermediate term bond	30,732	30,732	-	-
World allocation	21,304	21,304	-	-
Moderate allocation	15,624	15,624	-	-
Mid-cap blend	15,206	15,206	-	-
Aggressive allocation	18,916	18,916	-	-
Total mutual funds	<u>579,362</u>	<u>579,362</u>	<u>-</u>	<u>-</u>
Exchange traded funds	<u>68,238</u>	<u>68,238</u>	<u>-</u>	<u>-</u>
Equity securities:				
Basic materials	39,330	39,330	-	-
Financial	13,473	13,473	-	-
Healthcare	14,045	14,045	-	-
Services	1,313	1,313	-	-
Technology	4,231	4,231	-	-
Total equity securities	<u>72,392</u>	<u>72,392</u>	<u>-</u>	<u>-</u>
	<u>\$ 719,992</u>	<u>\$ 719,992</u>	<u>\$ -</u>	<u>\$ -</u>

# Easter Seals Arkansas

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2016 and 2015

### NOTE 6: GRANTS AND CONTRACTS RECEIVABLE, NET

The following is a summary of grants and contracts receivable at June 30:

	2016	2015
Medicaid	\$ 1,289,208	\$ 995,218
Private pay and insurance	74,290	88,929
Other federal awards	32,379	18,584
State assistance	3,759	11,358
Contract service fees	47,469	73,522
	<u>1,447,105</u>	<u>1,187,611</u>
Less allowance for uncollectible receivables	<u>(78,915)</u>	<u>(69,783)</u>
	<u>\$ 1,368,190</u>	<u>\$ 1,117,828</u>

### NOTE 7: CONTRIBUTIONS RECEIVABLE, NET

The following is a summary of contributions receivable at June 30:

	2016	2015
Capital campaign	\$ 59,974	\$ 144,974
Capital advance (Harold Court)	-	170,536
Fundraising and other	55,176	45,578
	<u>115,150</u>	<u>361,088</u>
Less unamortized discount	<u>(5,850)</u>	<u>(5,850)</u>
	<u>\$ 109,300</u>	<u>\$ 355,238</u>

### NOTE 8: PROPERTY AND EQUIPMENT, NET

The following is a summary of property and equipment at June 30:

	2016	2015
Buildings and improvements	\$ 22,591,070	\$ 22,234,774
Furniture and equipment	2,933,524	2,999,330
Vehicles	654,519	654,519
	<u>26,179,113</u>	<u>25,888,623</u>
Less accumulated depreciation and amortization	<u>(9,427,511)</u>	<u>(8,860,668)</u>
	<u>16,751,602</u>	<u>17,027,955</u>
Land and nondepreciable land improvements	<u>5,307,953</u>	<u>5,072,121</u>
	<u>\$ 22,059,555</u>	<u>\$ 22,100,076</u>

# Easter Seals Arkansas

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2016 and 2015

### NOTE 9: LONG-TERM OBLIGATIONS

On October 1, 1997, the Pulaski County Public Facilities Board (the County) issued a \$6,000,000 revenue bond (the 1997 Facility Bond) to finance the construction of a forty-bed children's rehabilitation center. Under a loan agreement executed on that date, the County agreed to lend the proceeds of the 1997 Facility Bond to the Organization to construct the facility.

On December 16, 2011, the County issued a \$4,500,000 revenue bond (the 2011 Facility Bond) to finance the construction of a job training and wellness center for adults with disabilities. Under a loan agreement executed on that date, the County agreed to lend the proceeds of the 2011 Facility Bond to the Organization to construct the facility.

The guaranty agreements executed by the Organization concurrently with the issuance of the bonds contain certain restrictive covenants, including, among other things, requirements to maintain a debt service coverage ratio of not less than 1.00 to 1.00. Management is not aware of any violations of any covenants during the years ended June 30, 2016 and 2015.

During the years ended June 30, 2016 and 2015, the Organization was party to a line of credit agreement with a financial institution for any amount up to \$500,000, the proceeds of which are to be used for operations. Interest only payments are due monthly until the maturity date of December 10, 2016, at which time all outstanding principal and interest are due. Outstanding balances will bear interest at 0.50 percentage points under the Wall Street Journal Prime Rate with a floor rate of 2.75% per annum and a ceiling not to exceed the maximum rate allowed by applicable law. At June 30, 2016 and 2015, there was no outstanding balance on the line of credit.

The Organization's long-term obligations at June 30, are as follows:

	<u>2016</u>	<u>2015</u>
\$6,000,000 revenue bond payable, dated October 1, 1997; fixed interest rate of 2.02% through October 2018; principal payments through October 2018 at varying amortization periods; secured by a mortgage on certain buildings and land with a net book value of \$6,601,800 at June 30, 2016.	\$ 908,803	\$ 1,285,143
\$4,500,000 revenue bond payable, dated December 16, 2011; fixed interest rates ranging between 2.25% and 5.00% through December 2036; principal payments through December 2036 at varying amortization periods; secured by a mortgage on certain buildings and land with a net book value of \$8,691,000 at June 30, 2016.	4,175,250	4,205,000
	<u>\$ 5,084,053</u>	<u>\$ 5,490,143</u>

# Easter Seals Arkansas

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2016 and 2015

### NOTE 9: LONG-TERM OBLIGATIONS

Scheduled principal payments for all long-term obligations during the fiscal years subsequent to June 30, 2016, are as follows:

2017	\$ 510,067
2018	521,710
2019	267,860
2020	135,000
2021	137,917
Thereafter	<u>3,511,499</u>
	<u>\$ 5,084,053</u>

### NOTE 10: CAPITAL LEASE OBLIGATIONS

During the year ended June 30, 2016 the Organization entered into an equipment lease agreement with EMC Corporation (assigned to De Lage Landen Financial Services) to acquire new computer equipment, requiring 36 monthly payments with the term beginning on the date the equipment was delivered. The equipment is recorded at the present value of the future minimum lease payments with effective interest rate of 4.49%.

Also, during the year ended June 30, 2016, the Organization entered into an equipment lease agreement with De Lage Landen Financial Services to acquire a new cooling unit, requiring 60 monthly payments with the term beginning on the date the equipment was delivered. The unit is recorded at the present value of the future minimum lease payments with effective interest rate of 6.80%.

The equipment and unit are being amortized over their useful life, which management estimates to be three and fifteen years, respectively. Recorded amounts of cost and accumulated amortization were approximately \$317,200 and \$67,100, respectively, resulting in a net book value of approximately \$250,100 at June 30, 2016. Minimum lease payments for these capital leases in future years ended June 30 are as follows:

2017	\$ 91,026
2018	91,026
2019	43,578
2020	43,578
2021	<u>18,158</u>
	287,366
Amount representing interest	<u>(37,219)</u>
Present value of minimum lease payments	<u>\$ 250,147</u>

Approximately \$12,100 of interest related to capital leases has been included in interest expense for the year ended June 30, 2016.

# Easter Seals Arkansas

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2016 and 2015

### NOTE 11: NET ASSETS

The costs of constructing Armistead's eighteen-unit apartment complex, Charlotte Garden's fourteen-unit apartment complex, Wilson Court II's fourteen-unit apartment complex, and Harold Court's fourteen-unit apartment complex were partially funded through capital advance awards provided by HUD under Section 811 of the National Affordable Housing Act of 1990, *Supportive Housing for Persons with Disabilities* (Section 811) and through direct subsidies provided by the Federal Home Loan Bank (FHLB).

Pursuant to the terms of the Capital Advance Agreements executed with HUD and the agreements executed with FHLB, the capital advances and subsidies bear no interest and are not required to be repaid, subject to continuing compliance requirements and as long as housing remains available to eligible individuals for a period of forty years. The capital advances are secured by mortgages on each of the apartment complexes and the land on which they are located. Since management considers the possibility of repayment of the capital advances and subsidies to be remote, these advances and subsidies were recognized as temporarily restricted support when received and are included in temporarily restricted net assets.

Temporarily restricted net assets at June 30, 2016 and 2015, consist of the following:

	2016	2015
HUD capital advance - Armistead	\$ 928,500	\$ 928,500
HUD capital advance - Charlotte Gardens	902,800	902,800
HUD capital advance - Wilson Court II	1,237,500	1,237,500
HUD capital advance - Harold Court	1,491,100	1,491,100
FHLB direct subsidy - Wilson Court II	154,000	154,000
FHLB direct subsidy - Harold Court	98,000	98,000
Support restricted for:		
Supplies	26,495	44,990
Grand Prairie Child Development Center Endowment	97,918	83,862
	<u>\$ 4,936,313</u>	<u>\$ 4,940,752</u>

At June 30, 2016 and 2015, permanently restricted net assets include approximately \$65,000 of contributions received by the Organization, the corpus of which may not be used for any purpose other than investment in perpetuity, while the income earned may be used to enhance the independence or lifestyle of a disabled individual. The remaining balance of permanently restricted net assets of approximately \$10,000 is attributable to the Infant Scholarship Fund, the income of which is used to provide financial assistance to those infants in the Organization's outpatient therapy program whose families are unable to pay for needed services.

# **Easter Seals Arkansas**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** **June 30, 2016 and 2015**

### **NOTE 12: RETIREMENT BENEFITS**

The Organization provides a 403(b) salary deferral retirement plan that covers substantially all full-time employees. As approved by the Board of Directors, the Organization may elect to contribute up to 3.00% of each participating employee's eligible compensation annually to the 403(b) plan. During the year ended June 30, 2016, the Organization declared a 3.00% match contribution to participating employees. No match was declared for the year ended June 30, 2015.

The Organization also provides a deferred compensation plan (the Plan) for its current and former President/CEO that provides periodic payments over an agreed-upon period after separation of service. As approved by the Board of Directors each year, the Organization may make contributions to this Plan. During the years ended June 30, 2016 and 2015, the Organization declared a contribution of \$18,500 and \$17,500, respectively. Plan assets totaled approximately \$266,000 and \$237,000, respectively, at June 30, 2016 and 2015, and are included in investments with an offsetting liability included in accrued expenses and other liabilities in the consolidated statements of financial position. The assets of the Plan are held in the Organization's name and are subject to claims of the Organization's creditors.

### **NOTE 13: CONTINGENCIES**

The Organization receives federal awards and state assistance designated for specific purposes that are subject to subsequent review and audit by federal and state funding sources. These reviews and audits could result in a request for reimbursement by the funding sources for amounts disallowed under the terms and conditions of the related contracts and grants. It is the opinion of the Organization's management that such disallowances, if any, would not be significant to the Organization's consolidated financial statements.

### **NOTE 14: SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 8, 2016, the date the consolidated financial statements were available to be issued. There were no events that met the criteria for accrual or disclosure.