



Easterseals Arkansas

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
June 30, 2017 and 2016**

(With Independent Auditor's Reports Thereon)

**Thomas &
Thomas LLP**

Certified Public Accountants

Easterseals Arkansas

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Easterseals Arkansas
Little Rock, Arkansas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **Easterseals Arkansas** and affiliates (collectively, "**the Organization**"), which comprise the statements of financial position as of June 30, 2017 and 2016, 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 consolidated financial position of **Easterseals Arkansas** and affiliates as of June 30, 2017 and 2016, and the consolidated 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 Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of 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*; schedule of state assistance, as required by the state of Arkansas Department of Human Services; and the supplementary schedules, as listed in the accompanying table of contents, are presented for purposes of additional analysis and are 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 of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated 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 January 11, 2018 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

January 11, 2018
Little Rock, Arkansas

Consolidated Financial Statements

Easterseals Arkansas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents - unrestricted	\$ 2,177,292	\$ 2,111,357
Cash and cash equivalents - restricted	483,117	423,378
Investments	2,007,349	719,992
Grants and contracts receivable, net	1,220,956	1,368,190
Contributions receivable, net	16,223	109,300
Other receivables	9,814	1,952
Prepaid expenses and other assets	130,833	240,156
Property and equipment, net	21,548,484	22,059,555
TOTAL ASSETS	\$ 27,594,068	\$ 27,033,880
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 252,595	\$ 297,327
Accrued expenses and other liabilities	1,269,767	1,537,561
Capital lease obligations	172,196	250,147
Long-term obligations	4,471,858	5,084,053
Total Liabilities	6,166,416	7,169,088
 Net Assets		
Unrestricted	16,408,658	14,853,382
Temporarily restricted	4,943,897	4,936,313
Permanently restricted	75,097	75,097
Total Net Assets	21,427,652	19,864,792
TOTAL LIABILITIES AND NET ASSETS	\$ 27,594,068	\$ 27,033,880

See accompanying notes to consolidated financial statements.

Easterseals Arkansas

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended June 30, 2017 and 2016

	2017	2016
CHANGES IN UNRESTRICTED NET ASSETS		
Support, Revenue, Gains (Losses) and Reclassifications		
Fees and Grants from Government Agencies		
Medicaid	\$ 17,553,206	\$ 17,757,579
Federal awards	1,732,121	1,756,561
State assistance	287,015	281,893
Public Support		
Contributions	1,527,124	667,820
Special events	731,567	733,020
Net assets released from restrictions	6,595	18,495
Other		
Private pay and insurance	1,029,837	592,465
Workshop fees	217,089	202,989
Contract service fees	459,292	450,296
Rental income	178,431	151,528
Investment income	42,332	14,001
Gain (loss) on disposals of property and equipment	81	(12,253)
Net appreciation (depreciation) in fair value of investments	52,806	(15,737)
Miscellaneous	7,462	7,135
Total Unrestricted Support, Revenue, Gains (Losses) and Reclassifications	23,824,958	22,605,792
Expenses		
Program Services		
Children	11,192,708	10,938,939
Adult	8,381,041	8,255,444
	19,573,749	19,194,383
Supporting Services		
Administration	1,999,332	2,043,408
Fundraising	696,601	662,408
	2,695,933	2,705,816
Total Expenses	22,269,682	21,900,199
Increase in Unrestricted Net Assets	1,555,276	705,593
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Public Support		
Contributions	10,000	10,000
Net appreciation in fair value of investments	4,179	4,056
Net assets released from restrictions	(6,595)	(18,495)
Increase (Decrease) in Temporarily Restricted Net Assets	7,584	(4,439)
OTHER CHANGES		
Remittance of excess residual receipts to HUD	-	(61,400)
INCREASE IN TOTAL NET ASSETS	1,562,860	639,754
NET ASSETS, BEGINNING OF YEAR	19,864,792	19,225,038
NET ASSETS, END OF YEAR	\$ 21,427,652	\$ 19,864,792

See accompanying notes to consolidated financial statements.

Easterseals Arkansas

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Total Net Assets	\$ 1,562,860	\$ 639,754
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities		
Depreciation and amortization expense	755,610	752,203
(Gain) loss on disposals of property and equipment	(81)	12,253
Net (appreciation) depreciation in fair value of investments	(56,985)	11,681
Changes in operating assets and liabilities:		
Grants and contracts receivable	147,234	(250,362)
Contributions receivable	93,077	245,938
Other receivables	(7,862)	27,651
Prepaid expenses and other assets	109,323	(169,146)
Accounts payable	(44,732)	(278,428)
Accrued expenses and other liabilities	(267,794)	177,621
Net Cash Provided by Operating Activities	2,290,650	1,169,165
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of property and equipment	-	136,000
Purchases of property and equipment	(244,458)	(542,713)
Purchases of investments	(1,279,511)	(96,266)
Proceeds from sales and maturities of investments	49,139	64,825
Net Cash Used by Investing Activities	(1,474,830)	(438,154)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligations	(77,951)	(67,075)
Payments on long-term obligations	(612,195)	(406,090)
Net Cash Used by Financing Activities	(690,146)	(473,165)
NET INCREASE IN CASH AND CASH EQUIVALENTS	125,674	257,846
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,534,735	2,276,889
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,660,409	\$ 2,534,735
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
Cash and cash equivalents - unrestricted	\$ 2,177,292	\$ 2,111,357
Cash and cash equivalents - restricted	483,117	423,378
Total Cash and Cash Equivalents	\$ 2,660,409	\$ 2,534,735
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Purchases of property and equipment included in accounts payable and capital leases	\$ -	\$ 317,222
Interest expense incurred and paid	\$ 203,171	\$ 212,361

See accompanying notes to consolidated financial statements.

Easterseals Arkansas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2017 and 2016

NOTE 1: NATURE OF ACTIVITIES

These consolidated financial statements include the accounts of Easterseals Arkansas (ESA), a nonprofit corporation serving children and adults with disabilities throughout the state of Arkansas, and its affiliates, which include Easterseals 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 certain 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

At times during 2017 and 2016, cash and cash equivalent balances held with financial institutions and investment banking firms exceeded the amounts insured by the Federal Deposit Insurance Corporation (FDIC) or Securities Investor Protection Corporation (SIPC), as applicable, 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, 2017 and 2016, the Organization's account balances totaled approximately \$2,832,000 and \$2,687,000, respectively. Of these balances, approximately \$1,415,000 and \$1,205,000 at June 30, 2017 and 2016, respectively, were not insured by the FDIC or SIPC, nor were they collateralized.

Easterseals Arkansas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 during the year, as well as those held at year end. 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 assets, excluding land and land improvements, which have indefinite useful lives. Useful lives of buildings and improvements range from ten to forty years, while the useful lives of furniture, equipment and vehicles range from five to ten years.

(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.

Contributions receivable as of June 30, 2017 and 2016 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 neither of the recognition criteria have been 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, 2017 and 2016 is approximately \$94,500 and \$79,400, respectively.

(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.

Easterseals Arkansas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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, 2017 and 2016, 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.
- 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Recently Issued Accounting Standards (Continued)

- 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.

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenues from Contracts with Customers*, which requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This revenue recognition standard, which will become effective for the Organization on July 1, 2019, generally affects all entities that either enter into contracts with customers to transfer goods, services or nonfinancial assets. Implementation of the requirements of this standard will require that the Organization 1) identify all contracts with customers, 2) identify performance obligations in the contracts, 3) determine the transaction price, 4) allocate the transaction price, and 5) recognize revenue when or as performance obligations are satisfied. Management of the Organization has not yet determined the significance of the impact that implementation of this standard or any related amendments will have on the Organization's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires lessees to record a right-of-use asset and a corresponding liability equal to the present value of future rental payments for all leases with a term greater than one year. This new standard is effective for the Organization on July 1, 2020. Management of the Organization has not yet determined the significance of the impact that implementation of this standard or any related amendments will have on the Organization's consolidated financial statements.

NOTE 3: RESTRICTED CASH AND CASH EQUIVALENTS

Bond Reserve Accounts Held with Trustee

Restricted cash and cash equivalents includes bond reserve accounts and replacement reserve accounts required by HUD 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2017 and 2016

NOTE 3: RESTRICTED CASH AND CASH EQUIVALENTS (Continued)

Bond Reserve Accounts Held with Trustee (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:

	2017	2016
Bond funds	\$ 92,369	\$ 93,550
Debt service reserve funds	158,062	157,775
	\$ 250,431	\$ 251,325

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 \$233,000 and \$172,000 at June 30, 2017 and 2016, respectively.

NOTE 4: INVESTMENTS

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

	2017	2016
Mutual funds	\$ 983,584	\$ 579,362
Exchange traded funds	944,376	68,238
Equity securities	79,389	72,392
	\$ 2,007,349	\$ 719,992

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.

Easterseals Arkansas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2017 and 2016

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, 2017 and 2016.

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 those investments are traded.

The methods described to estimate fair value may result in a fair value estimate that is 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.

Easterseals Arkansas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

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

	June 30, 2017			
	Fair Value	Level 1	Level 2	Level 3
Mutual funds:				
Short-term bonds	\$ 114,993	\$ 114,993	\$ -	\$ -
Small value	10,081	10,081	-	-
Small growth	42,849	42,849	-	-
Mid-cap value	19,100	19,100	-	-
Mid-cap growth	5,697	5,697	-	-
Mid-cap blend	6,218	6,218	-	-
Large value	113,352	113,352	-	-
Large growth	21,360	21,360	-	-
Corporate bonds	109,964	109,964	-	-
High-yield bond	16,051	16,051	-	-
Multisector bond	18,275	18,275	-	-
Ultrashort bond	192,577	192,577	-	-
Intermediate term bond	18,448	18,448	-	-
Intermediate value bond	135,447	135,447	-	-
Nontraditional bond	2,497	2,497	-	-
Energy limited partnership	13,990	13,990	-	-
Diversified emerging markets	6,939	6,939	-	-
Foreign large blend	5,683	5,683	-	-
Large blend	47,152	47,152	-	-
World bond	14,209	14,209	-	-
Europe stock	4,968	4,968	-	-
Bank loans	6,781	6,781	-	-
World allocation	18,764	18,764	-	-
Moderate allocation	16,740	16,740	-	-
Aggressive allocation	21,449	21,449	-	-
Total mutual funds	<u>983,584</u>	<u>983,584</u>	<u>-</u>	<u>-</u>
Exchange traded funds:				
Small growth	70,715	70,715	-	-
Mid-cap value	71,110	71,110	-	-
Mid-cap growth	65,758	65,758	-	-
Large value	168,647	168,647	-	-
Large blend	36,942	36,942	-	-
Foreign large blend	4,694	4,694	-	-
Large growth	85,575	85,575	-	-
Financial	33,869	33,869	-	-
Short-term bond	173,776	173,776	-	-
Preferred stock	135,694	135,694	-	-
Corporate bonds	97,596	97,596	-	-
Total exchange traded funds	<u>944,376</u>	<u>944,376</u>	<u>-</u>	<u>-</u>

Easterseals Arkansas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

	June 30, 2017			
	Fair Value	Level 1	Level 2	Level 3
Equity securities:				
Basic materials	\$ 43,269	\$ 43,269	\$ -	\$ -
Financial	13,368	13,368	-	-
Healthcare	17,108	17,108	-	-
Services	1,627	1,627	-	-
Technology	4,017	4,017	-	-
Total equity securities	79,389	79,389	-	-
	\$ 2,007,349	\$ 2,007,349	\$ -	\$ -
	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	579,362	579,362	-	-

Easterseals Arkansas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

	June 30, 2016			
	Fair Value	Level 1	Level 2	Level 3
Exchange traded funds				
Small growth	\$ 7,408	\$ 7,408	\$ -	\$ -
Mid-cap value	24,663	24,663	-	-
Mid-cap growth	13,850	13,850	-	-
Foreign large blend	4,019	4,019	-	-
Large growth	9,936	9,936	-	-
Large value	8,362	8,362	-	-
Total exchange traded funds	68,238	68,238	-	-
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	72,392	72,392	-	-
	\$ 719,992	\$ 719,992	\$ -	\$ -

NOTE 6: GRANTS AND CONTRACTS RECEIVABLE, NET

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

	2017	2016
Medicaid	\$ 1,160,037	\$ 1,289,208
Federal awards	56,740	32,379
State assistance	39,336	3,759
Private pay and insurance	12,902	74,290
Contract service fees	51,812	47,469
	1,320,827	1,447,105
Less allowance for uncollectible receivables	(99,871)	(78,915)
	\$ 1,220,956	\$ 1,368,190

Easterseals Arkansas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2017 and 2016

NOTE 7: CONTRIBUTIONS RECEIVABLE, NET

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

	2017	2016
Capital campaign	\$ -	\$ 59,974
Fundraising and other	16,223	55,176
	16,223	115,150
Less unamortized discount	-	(5,850)
	\$ 16,223	\$ 109,300

NOTE 8: PROPERTY AND EQUIPMENT, NET

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

	2017	2016
Buildings and improvements	\$ 22,677,966	\$ 22,591,070
Furniture and equipment	3,082,806	2,933,524
Vehicles	652,469	654,519
	26,413,241	26,179,113
Less accumulated depreciation and amortization	(10,172,710)	(9,427,511)
	16,240,531	16,751,602
Land and nondepreciable land improvements	5,307,953	5,307,953
	\$ 21,548,484	\$ 22,059,555

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, 2017 and 2016.

Easterseals Arkansas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2017 and 2016

NOTE 9: LONG-TERM OBLIGATIONS (Continued)

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

	2017	2016
\$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 amounts; secured by a mortgage on certain buildings and land with a net book value of \$6,464,907 at June 30, 2017.	\$ 425,861	\$ 908,803
\$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 amounts; secured by a mortgage on certain buildings and land with a net book value of \$8,544,358 at June 30, 2017.	4,045,997	4,175,250
	\$ 4,471,858	\$ 5,084,053

Scheduled principal payments for these long-term obligations during the fiscal years subsequent to June 30, 2017, are as follows:

2018	\$ 647,691
2019	132,917
2020	135,000
2021	137,917
2022	148,750
Thereafter	3,269,583
	\$ 4,471,858

NOTE 10: CAPITAL LEASE OBLIGATIONS

On May 27, 2015, the Organization entered into an equipment lease agreement to acquire new computer equipment, requiring 36 monthly payments with the term beginning on the date the equipment was delivered. The equipment was initially recorded at the present value of the future minimum lease payments with effective interest rate of 4.49%.

Also, on May 27, 2015, the Organization entered into an equipment lease agreement to acquire a new cooling unit, requiring 60 monthly payments with the term beginning on the date the equipment was delivered. The unit was initially recorded at the present value of the future minimum lease payments with effective interest rate of 6.80%.

Easterseals Arkansas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2017 and 2016

NOTE 10: CAPITAL LEASE OBLIGATIONS (Continued)

The equipment and unit are being amortized over their useful lives, which management estimates to be three and fifteen years, respectively. The net book value of the equipment being amortized was approximately \$172,200 and \$250,000, respectively, at June 30, 2017 and 2016. Minimum lease payments for these capital leases during fiscal years subsequent to June 30, 2017, are as follows:

2018	\$ 91,026
2019	43,578
2020	43,578
2021	18,158
	<hr/>
	196,340
Amount representing interest	<hr/>
	(24,144)
	<hr/>
Present value of minimum lease payments	<u>\$ 172,196</u>

Approximately \$13,400 and \$12,100 of interest related to these capital leases has been included in interest expense for the year ended June 30, 2017 and 2016, respectively.

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.

Easterseals Arkansas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 11: NET ASSETS (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016, consist of the following:

	2017	2016
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	1,491,000	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	20,000	26,495
Grand Prairie Child Development Center Endowment	112,097	97,918
	\$ 4,943,897	\$ 4,936,313

Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2017 and 2016, 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.

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 years ended June 30, 2017 and 2016, the Board of Directors approved a 3.00% match contribution to participating employees.

The Organization also provides a deferred compensation 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, 2017 and 2016, the Board of Directors approved contributions of \$17,500 and \$18,500, respectively. Plan assets totaled approximately \$319,000 and \$266,000, respectively, at June 30, 2017 and 2016, 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 are held in the Organization's name and are subject to claims of the Organization's creditors.

Easterseals Arkansas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2017 and 2016

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 requirement 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 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 January 11, 2018, the date the consolidated financial statements were available to be issued. There were no events that met the criteria for accrual or disclosure.

Supplementary Schedules

Easterseals Arkansas

COMBINING SCHEDULE OF SUPPORT, REVENUE AND DIRECT EXPENSES Year Ended June 30, 2017

	Program Services			Supporting Services			Total
	Children	Adult	Total Program Services	Administration	Fundraising	Total Supporting Services	
SUPPORT, REVENUE AND GAINS							
Fees and Grants from Government Agencies							
Medicaid	\$ 9,373,513	\$ 8,179,693	\$ 17,553,206	\$ -	\$ -	\$ -	\$ 17,553,206
Federal awards	1,179,892	552,229	1,732,121	-	-	-	1,732,121
State assistance	220,136	66,879	287,015	-	-	-	287,015
Public Support							
Contributions	112,575	5,000	117,575	1,000	1,418,549	1,419,549	1,537,124
Special events	-	-	-	-	731,567	731,567	731,567
Other							
Private pay and insurance	914,122	115,715	1,029,837	-	-	-	1,029,837
Workshop fees	217,089	-	217,089	-	-	-	217,089
Contract service fees	459,292	-	459,292	-	-	-	459,292
Rental income	-	167,056	167,056	11,375	-	11,375	178,431
Investment income	-	518	518	9,076	32,738	41,814	42,332
Gain (loss) on disposal of property and equipment	-	-	-	100	(19)	81	81
Net appreciation in fair value of investments	-	-	-	1,512	55,473	56,985	56,985
Miscellaneous	2,357	3,325	5,682	1,160	620	1,780	7,462
Total Support, Revenue and Gains	12,478,976	9,090,415	21,569,391	24,223	2,238,928	2,263,151	23,832,542

See Independent Auditor's Report.

Easterseals Arkansas

COMBINING SCHEDULE OF SUPPORT, REVENUE AND DIRECT EXPENSES *(Continued)* Year Ended June 30, 2017

	Program Services			Supporting Services			Total
	Children	Adult	Total Program Services	Administration	Fundraising	Total Supporting Services	
DIRECT EXPENSES							
Salaries	\$ 7,185,579	\$ 5,668,462	\$ 12,854,041	\$ 1,018,543	\$ 239,489	\$ 1,258,032	\$ 14,112,073
Payroll taxes and benefits	1,114,130	877,653	1,991,783	145,926	52,455	198,381	2,190,164
Professional fees	1,000,235	322,218	1,322,453	472,928	67,175	540,103	1,862,556
Supplies	674,652	199,206	873,858	51,676	292,906	344,582	1,218,440
Taxes and licenses	308,015	77,380	385,395	12,975	-	12,975	398,370
Telephone	47,409	41,419	88,828	23,221	1,354	24,575	113,403
Postage and shipping	4,485	4,019	8,504	4,917	2,912	7,829	16,333
Occupancy	162,584	109,102	271,686	24,021	5,344	29,365	301,051
Insurance	78,052	71,113	149,165	78,227	2,500	80,727	229,892
Printing	668	943	1,611	-	8,387	8,387	9,998
Transportation and travel	76,513	36,506	113,019	2,529	163	2,692	115,711
Employee recruitment/retention	21,049	16,767	37,816	6,424	660	7,084	44,900
Staff development	16,144	11,275	27,419	1,953	-	1,953	29,372
Specific assistance to individuals	3,313	238,837	242,150	-	-	-	242,150
National dues and subscriptions	-	-	-	38,162	-	38,162	38,162
Other dues and subscriptions	10,732	767	11,499	21,516	500	22,016	33,515
Repairs and maintenance	117,159	147,084	264,243	23,697	3,506	27,203	291,446
Interest	19,868	170,228	190,096	13,075	-	13,075	203,171
Miscellaneous	-	-	-	1,600	-	1,600	1,600
Provision for uncollectible accounts	34,000	17,515	51,515	-	10,250	10,250	61,765
Depreciation and amortization	318,121	370,547	688,668	57,942	9,000	66,942	755,610
Total Direct Expenses	11,192,708	8,381,041	19,573,749	1,999,332	696,601	2,695,933	22,269,682
Excess of Revenue and Support over Direct Expenses/(Excess of Direct Expenses over Revenue and Support)	\$ 1,286,268	\$ 709,374	\$ 1,995,642	\$ (1,975,109)	\$ 1,542,327	\$ (432,782)	\$ 1,562,860

See Independent Auditor's Report.

Easterseals Arkansas

SCHEDULE OF SUPPORT, REVENUE AND DIRECT EXPENSES Children Services Division Year Ended June 30, 2017

	<u>Outpatient Therapy</u>	<u>LR Preschool</u>	<u>Grand Prairie CDC</u>	<u>Outreach</u>	<u>Education</u>	<u>Residential</u>	<u>Total</u>
SUPPORT, REVENUE AND GAINS							
Fees and Grants from Government Agencies							
Medicaid	\$ 1,411,513	\$ 1,319,126	\$ 557,854	\$ -	\$ -	\$ 6,085,020	\$ 9,373,513
Federal awards	-	9,320	(1,027)	1,171,599	-	-	1,179,892
State assistance	-	1,067	1,466	53,000	140,113	24,490	220,136
Public Support							
Contributions	6,735	-	69	-	-	105,771	112,575
Other							
Private pay and insurance	582,807	244,701	2,780	-	-	83,834	914,122
Workshop fees	-	-	-	217,089	-	-	217,089
Contract service fees	-	-	-	-	459,292	-	459,292
Miscellaneous	215	-	2,088	-	54	-	2,357
Total Support, Revenue and Gains	<u>2,001,270</u>	<u>1,574,214</u>	<u>563,230</u>	<u>1,441,688</u>	<u>599,459</u>	<u>6,299,115</u>	<u>12,478,976</u>
DIRECT EXPENSES							
Salaries	1,202,760	1,178,495	368,368	839,253	356,965	3,239,738	7,185,579
Payroll taxes and benefits	177,492	166,961	64,256	131,075	55,893	518,453	1,114,130
Professional fees	354,832	98,656	34,200	63,014	22,569	426,964	1,000,235
Supplies	32,237	111,598	47,261	101,975	6,262	375,319	674,652
Taxes and licenses	-	-	-	-	-	308,015	308,015
Telephone	4,303	4,265	15,425	5,324	2,459	15,633	47,409
Postage and shipping	1,042	789	201	617	104	1,732	4,485
Occupancy	16,988	20,467	19,302	11,803	11,191	82,833	162,584
Insurance	7,931	10,831	4,372	9,423	4,354	41,141	78,052
Printing	537	-	-	131	-	-	668
Transportation and travel	6,294	729	1,808	58,797	129	8,756	76,513
Employee recruitment/retention	1,019	5,924	1,620	728	812	10,946	21,049
Staff development	5,651	811	230	3,654	451	5,347	16,144
Specific assistance to individuals	3,313	-	-	-	-	-	3,313
Other dues and subscriptions	2,880	100	50	4,930	-	2,772	10,732
Repairs and maintenance	10,412	14,757	4,410	6,862	829	79,889	117,159
Interest	4,842	-	-	-	1,803	13,223	19,868
Miscellaneous	325	715	-	(4,720)	1,695	1,985	-
Provision for uncollectible accounts	30,000	2,500	1,500	-	-	-	34,000
Depreciation and amortization	31,500	33,972	14,801	71,639	14,967	151,242	318,121
Total Direct Expenses	<u>1,894,358</u>	<u>1,651,570</u>	<u>577,804</u>	<u>1,304,505</u>	<u>480,483</u>	<u>5,283,988</u>	<u>11,192,708</u>
ALLOCATION OF ADMINISTRATIVE COST							
	221,877	212,006	54,807	123,737	45,575	501,204	1,159,206
Total Expenses and Allocation	<u>2,116,235</u>	<u>1,863,576</u>	<u>632,611</u>	<u>1,428,242</u>	<u>526,058</u>	<u>5,785,192</u>	<u>12,351,914</u>
	<u>\$ (114,965)</u>	<u>\$ (289,362)</u>	<u>\$ (69,381)</u>	<u>\$ 13,446</u>	<u>\$ 73,401</u>	<u>\$ 513,923</u>	<u>\$ 127,062</u>

See Independent Auditor's Report.

Easterseals Arkansas

SCHEDULE OF SUPPORT, REVENUE AND DIRECT EXPENSES

Adult Services Division

Year Ended June 30, 2017

	Adult Day Program	Residential	Community Services	Armistead Apartments	Charlotte Gardens Apartments	Wilson Court II Apartments	Harold Court Apartments	Total
SUPPORT, REVENUE AND GAINS								
Fees and Grants from Government Agencies								
Medicaid	\$ 1,486,863	\$ 731,991	\$ 5,960,839	\$ -	\$ -	\$ -	\$ -	\$ 8,179,693
Federal awards	277,101	-	-	90,419	65,372	65,100	54,237	552,229
State assistance	66,879	-	-	-	-	-	-	66,879
Public Support								
Contributions	5,000	-	-	-	-	-	-	5,000
Other								
Private pay and insurance	31,383	84,332	-	-	-	-	-	115,715
Rental income	-	-	-	40,402	45,368	40,609	40,677	167,056
Investment income	-	-	-	112	145	151	110	518
Miscellaneous	-	-	-	2,075	550	650	50	3,325
Total Support, Revenue and Gains	1,867,226	816,323	5,960,839	133,008	111,435	106,510	95,074	9,090,415
DIRECT EXPENSES								
Salaries	929,068	391,243	4,181,510	48,499	38,906	40,871	38,365	5,668,462
Payroll taxes and benefits	161,694	66,951	626,831	5,784	5,429	5,596	5,368	877,653
Professional fees	182,004	26,229	60,785	13,300	13,300	13,300	13,300	322,218
Supplies	108,585	50,941	17,836	5,398	5,486	5,373	5,587	199,206
Taxes and licenses	-	77,380	-	-	-	-	-	77,380
Telephone	18,608	3,578	8,805	2,445	3,555	2,547	2,881	41,419
Postage and shipping	641	192	2,583	202	175	82	144	4,019
Occupancy	47,293	11,813	7,016	13,863	9,201	12,104	7,812	109,102
Insurance	30,507	6,878	3,284	9,377	7,251	7,846	5,970	71,113
Printing	739	-	-	51	51	51	51	943
Transportation and travel	13,165	4,348	16,145	817	856	926	249	36,506
Employee recruitment/retention	1,945	1,186	13,467	78	49	32	10	16,767
Staff development	4,023	477	6,607	42	42	42	42	11,275
Specific assistance to individuals	-	-	238,837	-	-	-	-	238,837
Other dues and subscriptions	475	244	-	-	16	16	16	767
Repairs and maintenance	39,020	25,576	4,603	30,894	17,288	15,435	14,268	147,084
Interest	170,228	-	-	-	-	-	-	170,228
Miscellaneous	(50,839)	50,839	-	-	-	-	-	-
Provision for uncollectible accounts	2,000	500	15,000	-	-	15	-	17,515
Depreciation and amortization	199,067	21,341	14,082	25,818	27,363	36,654	46,222	370,547
Total Direct Expenses	1,858,223	739,716	5,217,391	156,568	127,968	140,890	140,285	8,381,041
ALLOCATION OF ADMINISTRATIVE COST	176,258	70,164	513,860	14,851	12,138	13,364	13,307	813,942
Total Expenses and Allocation	2,034,481	809,880	5,731,251	171,419	140,106	154,254	153,592	9,194,983
	\$ (167,255)	\$ 6,443	\$ 229,588	\$ (38,411)	\$ (28,671)	\$ (47,744)	\$ (58,518)	\$ (104,568)

See Independent Auditor's Report.

Easterseals Arkansas

SCHEDULE OF PROGRAM UNITS OF SERVICE Year Ended June 30, 2017

<u>Unit of Service</u>	<u>Number of Program Units of Service Provided</u>				
	<u>Medicaid</u>	<u>State Awards</u>	<u>Private Pay</u>	<u>Total</u>	
40-bed residential:					
ICF/MR	Day	14,528	-	-	14,528
RSPD	Day	118	-	-	118
10-bed residential ICF/MR	Day	3,650	-	-	3,650
Adult development	Hour	139,847	7,513	740	148,100
Preschool	Hour	86,522	238	-	86,760
Transportation	Mile	2,096	-	-	2,096
Transportation	Day	-	-	241	241
Work activity	Hour	-	17,453	-	17,453

See Independent Auditor's Report.

**Other Reports
and
Supplemental Information**

**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**

The Board of Directors
Easterseals Arkansas
Little Rock, Arkansas

We have audited, in accordance with the 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, the consolidated financial statements of **Easterseals Arkansas** and affiliates (collectively, "**the Organization**"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 11, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the entity'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. 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 the Organization’s consolidated financial statements are free from 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 the Organization’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Thomas & Thomas LLP
Certified Public Accountants

January 11, 2018
Little Rock, Arkansas

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

The Board of Directors
Easterseals Arkansas
Little Rock, Arkansas

Report on Compliance for Each Major Federal Program

We have audited the compliance of **Easterseals Arkansas** and affiliates (collectively "**the Organization**") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2017. The Organization's major 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 programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major 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 of America; 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). 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 Organization'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 program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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 programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Organization 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 the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Organization'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 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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. Accordingly, this report is not suitable for any other purpose.

Thomas & Thomas LLP
Certified Public Accountants

January 11, 2018
Little Rock, Arkansas

Easterseals Arkansas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2017

	Federal CFDA Number	Federal Expenditures
EXPENDITURES		
U.S. Department of Housing and Urban Development		
Supportive Housing for Persons with Disabilities (Section 811) – Rental Assistance (Armistead Apartments, Inc.)	14.181	\$ 90,419
Supportive Housing for Persons with Disabilities (Section 811) – Rental Assistance (Charlotte Gardens, Inc.)	14.181	65,372
Supportive Housing for Persons with Disabilities (Section 811) – Rental Assistance (Wilson Court II)	14.181	65,100
Supportive Housing for Persons with Disabilities (Section 811) – Rental Assistance (Harold Court)	14.181	54,237
Total U.S. Department of Housing and Urban Development		275,128
U.S. Department of Education		
Passed through Arkansas Department of Education:		
Special Education – Grants to States (IDEA, Part B):		
Outreach	84.027	1,171,599
Outpatient	84.027	2,258
		1,173,857
Passed through Arkansas Rehabilitation Services:		
Rehabilitation Services – Vocational Rehabilitation Grants to States:		
Academics, Community, Career Development and Employment program	84.126	49,000
Supportive Employment	84.126	68,250
		117,250
Total U.S. Department of Education		1,291,107
U.S. Department of Health and Human Services		
Passed through Arkansas Department of Human Services:		
Child Care and Development Block Grant	93.575	7,085
Foster Care – Title IV-E	93.658	1,208
Social Services Block Grant - Service Operational Contract	93.667	90,500
DCCECE - Child and Adult Care Food Program	10.558	67,093
		165,886
Total U.S. Department of Health and Human Services		165,886
Total Expenditures		\$ 1,732,121

(Continued)

See Independent Auditor's Report.

Easterseals Arkansas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS *(Continued)* Year Ended June 30, 2017

	Federal CFDA Number	Federal Expenditures
CAPITAL ADVANCES		
U.S. Department of Housing and Urban Development		
Supportive Housing for Persons with Disabilities (Section 811) – Capital Advance (Armistead)	14.181	\$ 928,500
Supportive Housing for Persons with Disabilities (Section 811) – Capital Advance (Charlotte Gardens)	14.181	902,800
Supportive Housing for Persons with Disabilities (Section 811) – Capital Advance (Wilson Court II)	14.181	1,237,500
Supportive Housing for Persons with Disabilities (Section 811) – Capital Advance (Harold Court)	14.181	1,491,000
Total Capital Advances		\$ 4,559,800

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal activity under programs of the Federal government during the year ended June 30, 2017. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the consolidated financial position, consolidated changes in net assets or consolidated cash flows of the Organization.

Medicaid reimbursements paid to providers are defined as contracts for services and not federal awards; therefore they are not covered by the reporting requirements of the Uniform Guidance and are not included in the Schedule. Total Medicaid funding for the year ended June 30, 2017 was \$17,553,206.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Capital advances outstanding are required to be reported on the Schedule even though they were not awarded during the current year due to continuing compliance requirements that must be adhered to by the Organization.

NOTE 3: INDIRECT COST RATE

The Organization has not elected to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance, but rather the rates established directly with each of the respective funding agencies.

See Independent Auditor’s Report.

Easterseals Arkansas

SCHEDULE OF STATE ASSISTANCE Year Ended June 30, 2017

	<u>Revenues</u>	<u>Expenditures</u>
STATE ASSISTANCE		
Arkansas Department of Human Services		
Division of Developmental Disabilities Services – Service Operational Contract	\$ 70,405	\$ 70,405
Foster Care - State	<u>23,497</u>	<u>23,497</u>
 Total Arkansas Department of Human Services	<u>93,902</u>	<u>93,902</u>
Arkansas Department of Education		
Arkansas Department of Education	<u>193,113</u>	<u>193,113</u>
 Total Arkansas Department of Education	<u>193,113</u>	<u>193,113</u>
 Total State Assistance	<u><u>\$ 287,015</u></u>	<u><u>\$ 287,015</u></u>

See Independent Auditor's Report.

Easterseals Arkansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2017

Summary of Auditor's Results

- **Type of Report Issued - Consolidated Financial Statements**
Unmodified opinion
- **Internal Control - Consolidated Financial Statements**
None
- **Material Noncompliance - Consolidated Financial Statements**
None
- **Internal Control - Major Programs**
None
- **Type of Report Issued - Compliance**
Unmodified opinion
- **Audit Findings Under the Uniform Guidance**
None
- **Major Programs**
 - U.S. Department of Housing and Urban Development, Supportive Housing for Persons with Disabilities (Section 811), CFDA #14.181
- **Threshold for Distinguishing between Type A and Type B Programs**
\$750,000
- **Type of Auditee**
High-risk auditee

Audit Findings - Consolidated Financial Statement

None

Finding and Questioned Costs – Major Federal Award Program Audit

None

See Independent Auditor's Report.

Easterseals Arkansas

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS Year Ended June 30, 2017

FINDING 2016-1	PERFORMANCE REPORTING REQUIREMENTS
STATUS INDICATOR	Invalid
STATEMENT OF CONDITION OF PREVIOUS FINDING	Form HUD 60002 was not submitted after construction of the Harold Court Project was completed.
PREVIOUS RESPONSE FOR FINDING	The management agent was seeking guidance from HUD regarding the applicability of this reporting requirement for this specific Project.
NARRATIVE	All closing documents, excluding Form HUD 60002, for the construction of the Project were filed and accepted by HUD. The management agent was unable to obtain guidance from HUD regarding this reporting requirement, and thus does not consider it necessary to complete any additional reporting. This matter is considered by management to be closed.
FINDING 2016-2	DUE FROM MANAGEMENT AGENT
STATUS INDICATOR	Cleared
STATEMENT OF CONDITION OF PREVIOUS FINDING	The management agent incorrectly calculated the amount due from the Harold Court Project for reimbursement of construction costs paid by the management agent on behalf of the Project. The amount calculated incorrectly included the Working Capital Deposit.
PREVIOUS RESPONSE FOR FINDING	The management agent has repaid the Working Capital Deposit to the Project and will maintain this deposit as required by HUD for the minimum of three years and until notice is received from HUD approving release of the funds to the Sponsor/Owner.
NARRATIVE	The management agent identified and corrected the error within three months of the error occurring.

See Independent Auditor's Report.