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**FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

JUNE 30, 2014 AND 2013

Mueller Prost

CPAs + Business Advisors



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To the Board of Directors of
Easter Seals Midwest
St. Louis, Missouri

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated financial statements of *Easter Seals Midwest* (a nonprofit organization) (the "Organization") which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 above present fairly, in all material respects, the financial position of the Organization as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Restatement

As discussed in Note 4 to the consolidated financial statements, overstatement of amounts previously reported of accounts receivable, understatement of the amount previously reported for allowance for doubtful accounts, understatement of amounts previously reported for bad debt expense as of June 30, 2013, were adjusted by management of the Organization during the current year. Accordingly, amounts reported for accounts receivable, allowance for doubtful accounts, and bad debt expense have been restated in the 2013 consolidated financial statements now presented, and an adjustment has been made to net assets as of June 30, 2013, to correct the accounts. Our opinion is not modified with respect to that matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position on pages 27-28 and the consolidating schedules of activities on pages 29-30 are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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.

November 19, 2014
St. Louis, Missouri

Mueller Probst LC

Certified Public Accountants

FINANCIAL STATEMENTS

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013**

<u>ASSETS</u>	<u>2014</u>	(Restated) <u>2013</u>
Current Assets		
Cash and cash equivalents	\$ 19,292	\$ 41,396
Investments	2,007,100	2,110,459
Accounts receivable (net of allowance for uncollectible accounts of \$232,548 and \$237,600, respectively)	5,043,160	4,643,560
Pledges receivable	135,489	198,338
Prepaid expenses	22,961	118,406
Restricted deposits and funded reserves	138,393	124,127
Other current assets	-	14,918
Total Current Assets	<u>7,366,395</u>	<u>7,251,204</u>
Property, Equipment, and Leasehold Improvements (net of accumulated depreciation of \$4,984,794 and \$4,428,161, respectively)	<u>3,967,598</u>	<u>4,178,241</u>
Other Assets		
Loan costs	70,127	72,701
Long-term pledges receivable	-	7,500
Security deposits	79,469	25,682
Assets restricted / designated for endowment	4,853,950	3,917,358
Total Other Assets	<u>5,003,546</u>	<u>4,023,241</u>
Total Assets	\$ 16,337,539	\$ 15,452,686
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Line-of-credit	\$ 1,692,173	\$ 701,010
Current maturities of long-term debt	168,149	127,008
Current portion of capital lease	6,113	7,403
Accounts payable	751,154	491,885
Accrued salaries and related expenses	1,708,251	1,928,844
Accrued expenses and other liabilities	50,883	116,911
Total Current Liabilities	<u>4,376,723</u>	<u>3,373,061</u>
Long-Term Liabilities		
Long-term debt, less current maturities	3,160,992	3,356,318
Long-term capital lease, less current portion	1,677	8,166
Total Long-Term Liabilities	<u>3,162,669</u>	<u>3,364,484</u>
Total Liabilities	<u>7,539,392</u>	<u>6,737,545</u>
Net Assets		
Unrestricted		
Operations	1,262,185	1,719,667
Investment in property, equipment, and leasehold improvements, net of related debt	638,457	694,915
Board designated endowment	2,256,935	1,979,313
Replacement of land and building	125,409	99,267
Residual receipts	105	12,105
Total Unrestricted	<u>4,283,091</u>	<u>4,489,698</u>
Temporarily restricted	2,482,166	2,328,917
Permanently restricted	2,032,890	1,896,526
Total Net Assets	<u>8,798,147</u>	<u>8,715,141</u>
Total Liabilities and Net Assets	\$ 16,337,539	\$ 15,452,686

The notes to consolidated financial statements are an integral part of these statements.

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operational Revenue				
Program Service Revenue	\$ 37,563,527	\$ -	\$ -	\$ 37,563,527
Contributions and Grants	96,482	875,107	-	971,589
Special Events	852,163	28,088	-	880,251
Investment Income within Board Spending Limit	180,597	-	-	180,597
Gain on Sale of Assets	11,351	-	-	11,351
Miscellaneous Income	<u>209,064</u>	<u>-</u>	<u>-</u>	<u>209,064</u>
	38,913,184	903,195	-	39,816,379
Net Assets Released From Restrictions:	<u>1,303,164</u>	<u>(1,303,164)</u>	<u>-</u>	<u>-</u>
Total Operational Revenue	<u>40,216,348</u>	<u>(399,969)</u>	<u>-</u>	<u>39,816,379</u>
Functional Expenses				
Program Services	35,041,904	-	-	35,041,904
Management and General	4,299,635	-	-	4,299,635
Special Events	270,290	-	-	270,290
Fund Development	<u>717,575</u>	<u>-</u>	<u>-</u>	<u>717,575</u>
Total Expenses	<u>40,329,404</u>	<u>-</u>	<u>-</u>	<u>40,329,404</u>
Operational Changes in Net Assets	<u>(113,056)</u>	<u>(399,969)</u>	<u>-</u>	<u>(513,025)</u>
Non Operational Revenue (Expenses)				
Special Gifts	-	-	136,364	136,364
Investment Income	101,880	553,218	-	655,098
Special Project Expenses	<u>(195,431)</u>	<u>-</u>	<u>-</u>	<u>(195,431)</u>
Total Non Operational Revenue (Expenses)	<u>(93,551)</u>	<u>553,218</u>	<u>136,364</u>	<u>596,031</u>
Changes in Net Assets	(206,607)	153,249	136,364	83,006
Net assets, beginning of year	<u>4,489,698</u>	<u>2,328,917</u>	<u>1,896,526</u>	<u>8,715,141</u>
Net assets, end of year	<u>\$ 4,283,091</u>	<u>\$ 2,482,166</u>	<u>\$ 2,032,890</u>	<u>\$ 8,798,147</u>

The notes to consolidated financial statements are an integral part of these statements.

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
CONSOLIDATED STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013 (RESTATED)**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Operational Revenue				
Program Service Revenue	\$ 36,686,839	\$ -	\$ -	\$ 36,686,839
Contributions and Grants	154,162	702,074	-	856,236
Special Events	1,164,470	35,041	-	1,199,511
Investment Income within Board Spending Limit	137,873	-	-	137,873
Miscellaneous Income	<u>186,918</u>	<u>-</u>	<u>-</u>	<u>186,918</u>
	38,330,262	737,115	-	39,067,377
Net Assets Released From Restrictions:	<u>680,779</u>	<u>(680,779)</u>	<u>-</u>	<u>-</u>
Total Operational Revenue	<u>39,011,041</u>	<u>56,336</u>	<u>-</u>	<u>39,067,377</u>
Functional Expenses				
Program Services	33,437,336	-	-	33,437,336
Management and General	5,145,825	-	-	5,145,825
Special Events	248,078	-	-	248,078
Fund Development	<u>685,903</u>	<u>-</u>	<u>-</u>	<u>685,903</u>
Total Expenses	<u>39,517,142</u>	<u>-</u>	<u>-</u>	<u>39,517,142</u>
Operational Changes in Net Assets	<u>(506,101)</u>	<u>56,336</u>	<u>-</u>	<u>(449,765)</u>
Non Operational Revenue				
Special Gifts	-	1,752,948	318,182	2,071,130
Investment Income	<u>74,008</u>	<u>123,890</u>	<u>-</u>	<u>197,898</u>
Total Non Operational Revenue	74,008	1,876,838	318,182	2,269,028
Changes in Net Assets	(432,093)	1,933,174	318,182	1,819,263
Net assets, beginning of year	<u>4,921,791</u>	<u>395,743</u>	<u>1,578,344</u>	<u>6,895,878</u>
Net assets, end of year	<u>\$ 4,489,698</u>	<u>\$ 2,328,917</u>	<u>\$ 1,896,526</u>	<u>\$ 8,715,141</u>

The notes to consolidated financial statements are an integral part of these statements.

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014**

	Program	Management and General	Fund Development	Total Expenses
Salaries	\$ 24,971,801	\$ 2,426,969	\$ 501,941	\$ 27,900,711
Payroll Taxes	2,088,816	180,259	37,577	2,306,652
Employee Benefits	2,140,544	205,710	42,540	2,388,794
Worker's Compensation	585,009	76,515	15,485	677,009
Total Salaries and Related Expenses	<u>29,786,170</u>	<u>2,889,453</u>	<u>597,543</u>	<u>33,273,166</u>
Accreditation Fees	-	15,112	-	15,112
Advertising and Printing	3,755	15,235	19,945	38,935
Auto Expense	429,758	284	-	430,042
Bad Debt Expense	7,442	-	-	7,442
Bank Charges and Fees	10,895	29,959	12,738	53,592
Board Expense	-	10,089	164	10,253
Client Assistance	690,667	-	-	690,667
Conferences and Dues	32,374	91,298	6,177	129,849
Employee Costs	11,087	139,367	260	150,714
Equipment	91,083	72,334	844	164,261
Facility Costs	17,530	14,494	-	32,024
Gain/Loss Sale of Asset	-	729	-	729
Insurance	132,302	4,666	636	137,604
Interest	149,916	67,421	-	217,337
Maintenance	269,020	8,227	-	277,247
Management Fee	-	25,109	-	25,109
Marketing Expense	4,906	33,332	12,315	50,553
Merger Integration	-	19,578	-	19,578
Miscellaneous	526	19,308	-	19,834
Office Supplies	79,923	16,761	2,658	99,342
Outside Services	273,072	139,862	1,270	414,204
Postage and Shipping	44,527	9,601	17,281	71,409
Program Supplies	115,211	21,217	5,028	141,456
Professional Fees	3,851	100,564	-	104,415
Rent	610,265	224,528	7,217	842,010
Software	-	74,291	3,250	77,541
Special Event Expense	6,287	1,703	262,300	270,290
Staff Mileage	1,270,727	27,246	12,282	1,310,255
Staff Training	5,149	1,418	1,231	7,798
Telephone	343,247	73,870	4,632	421,749
Travel and Entertainment	66,590	60,445	10,278	137,313
Utilities	158,412	2,091	-	160,503
Total Functional Expenses Before Depreciation and Amortization	<u>34,614,692</u>	<u>4,209,592</u>	<u>978,049</u>	<u>39,802,333</u>
Depreciation and Amortization	<u>427,212</u>	<u>90,043</u>	<u>9,816</u>	<u>527,071</u>
Total Operational Expenses	<u>\$ 35,041,904</u>	<u>\$ 4,299,635</u>	<u>\$ 987,865</u>	<u>\$ 40,329,404</u>
Special Project Expenses	<u>\$ 72,391</u>	<u>\$ 122,338</u>	<u>\$ 702</u>	<u>\$ 195,431</u>

The notes to consolidated financial statements are an integral part of these statements.

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013 (RESTATED)**

	Program	Management and General	Fund Development	Total Expenses
Salaries	\$ 23,718,558	\$ 2,920,681	\$ 425,006	\$ 27,064,245
Payroll Taxes	1,745,335	209,470	30,372	1,985,177
Employee Benefits	2,389,712	281,320	38,324	2,709,356
Worker's Compensation	375,123	58,602	10,313	444,038
Total Salaries and Related Expenses	<u>28,228,728</u>	<u>3,470,073</u>	<u>504,015</u>	<u>32,202,816</u>
Advertising and Printing	6,352	23,087	24,813	54,252
Auto Expense	297,824	39,280	39	337,143
Bad Debt Expense	543,480	21,000	-	564,480
Bank Charges and Fees	11,101	29,828	16,537	57,466
Board Expense	-	12,017	-	12,017
Client Assistance	460,955	-	-	460,955
Conferences and Dues	27,566	31,901	9,945	69,412
Equipment	93,015	65,970	1,821	160,806
Grocery and Household Supplies	854	67	-	921
Insurance	69,998	6,059	-	76,057
Interest	165,891	53,607	-	219,498
Licensing Expense	1,071	178	-	1,249
Maintenance	131,487	124,054	-	255,541
Management Fee	-	25,077	-	25,077
Marketing Expense	6,980	70,334	5,575	82,889
Miscellaneous	164,172	67,543	730	232,445
Office Supplies	79,110	29,998	7,112	116,220
Outside Services	158,907	100,144	7,887	266,938
Postage and Shipping	30,525	14,060	16,929	61,514
Professional Fees	43,312	233,766	300	277,378
Program Supplies	110,552	22,679	5,462	138,693
Property Taxes	56	195	-	251
Recruiting	3,596	125,074	-	128,670
Rent	586,602	165,113	48,676	800,391
Software	-	119,955	13,472	133,427
Special Event Expense	-	-	248,078	248,078
Staff Mileage	1,183,934	33,387	7,529	1,224,850
Staff Training	14,012	10,361	-	24,373
Telephone	292,139	83,347	5,425	380,911
Travel and Entertainment	42,258	56,365	5,681	104,304
Utilities	<u>165,964</u>	<u>17,858</u>	<u>60</u>	<u>183,882</u>
Total Functional Expenses Before Depreciation and Amortization	<u>32,920,441</u>	<u>5,052,377</u>	<u>930,086</u>	<u>38,902,904</u>
Depreciation and Amortization	<u>516,895</u>	<u>93,448</u>	<u>3,895</u>	<u>614,238</u>
Total Expenses	<u>\$ 33,437,336</u>	<u>\$ 5,145,825</u>	<u>\$ 933,981</u>	<u>\$ 39,517,142</u>

The notes to consolidated financial statements are an integral part of these statements.

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	(Restated) <u>2013</u>
Cash Flows from Operating Activities		
Change in net assets	\$ <u>83,006</u>	\$ <u>1,819,263</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	604,206	614,238
Unrealized gain on investments	(291,996)	(156,281)
Realized gain on investments	(412,473)	(88,089)
Gain on disposal of property	(11,352)	(5,244)
Contributions restricted for permanent endowment	(136,364)	(318,182)
(Increase) decrease in operating assets:		
Accounts receivable	(399,600)	(649,747)
Grants receivable	-	154,711
Pledges receivable	70,349	(130,044)
Due from related party	-	100,000
Prepaid expenses	95,445	(3,176)
Security deposits	(52,172)	(17,902)
Other assets	652	197,464
Increase (decrease) in operating liabilities:		
Accounts payable	259,269	22,343
Accrued salaries and related expenses	(220,593)	436,562
Accrued expenses and other liabilities	(67,643)	70,524
Due to Life Skills	-	(203,110)
Net cash provided (used) by operating activities	<u>(479,266)</u>	<u>1,843,330</u>
Cash flows from Investing Activities		
Purchases of property, equipment, and leasehold improvements	(415,919)	(505,663)
Proceeds from sale of property, equipment, and leasehold improvements	8,624	-
Proceeds from sale of investments	5,731,956	4,082,203
Purchases of investments	<u>(5,833,062)</u>	<u>(6,104,890)</u>
Net cash used by investing activities	<u>(508,401)</u>	<u>(2,528,350)</u>
Cash flows from Financing Activities		
Net borrowings (payments) on line-of-credit	991,163	(252,325)
Payments on long-term debt	(154,185)	(240,451)
Payments on capital lease	(7,779)	(9,270)
Contributions restricted for permanent endowment	<u>136,364</u>	<u>318,182</u>
Net cash provided (used) by financing activities	<u>965,563</u>	<u>(183,864)</u>
Net Decrease in Cash and Cash Equivalents	(22,104)	(868,884)
Cash and Cash Equivalents, Beginning of Year	<u>41,396</u>	<u>910,280</u>
Cash and Cash Equivalents, End of Year	\$ <u>19,292</u>	\$ <u>41,396</u>

The notes to consolidated financial statements are an integral part of these statements.

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1 NATURE OF THE ORGANIZATION

Easter Seals Midwest is a Missouri not-for-profit organization whose mission is to assist individuals with developmental disabilities – including autism – learn, live, work and participate in the community. The Organization is unconditionally committed to assisting these individuals to live and work with self-fulfillment and dignity. On September 1, 2013, *Life Skills* became an affiliate of Easter Seals, Inc. At this time, the Organization changed its name to *Easter Seals Midwest*. *Life Skills* was formed through a merger of *Life Skills Foundation* and *TouchPoint Autism Services* effective July 1, 2012. See Note 3 for further details.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Easter Seals Midwest and LSF Properties, Inc. (a HUD-insured 501(c)(3) organization which owns an apartment complex with tenants supported by Easter Seals Midwest) (collectively, the “Organization”). All significant inter-entity accounts, balances and transactions have been eliminated in consolidation.

Description Of Program Services And Supporting Activities

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

Community Living Services

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

Employment Services

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

Autism Services

The Autism Services division works with individuals with autism as well as with their families to help them develop communication and social skills, while troubleshooting problem behaviors. The Organization customizes its services to meet each individual’s and family’s need for support.

Management And General

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

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fundraising

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

Financial Statement Presentation

The Organization has adopted the provisions of the Financial Accounting Standards Board ("FASB") in regards to consolidated financial statements of not-for-profit organizations as discussed under ASC 958-210, Financial Statements of Not-For-Profit Organizations. This provision requires the reporting of total assets, liabilities, and net assets in a statement of financial position, and reporting the change in net assets in a statement of activities. This provision also requires that net assets, revenue, expenses, gains, and losses be classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions.

Basis of Accounting

The Organization maintains its accounting records on the accrual basis, whereby revenues are recognized when pledged or earned and expenses are recognized when incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Organization's cash and cash equivalents are on deposit with primarily one financial institution in the St. Louis metropolitan area. Bank balances are fully insured by the Federal Deposit Insurance Corporation (FDIC) at June 30, 2014 and 2013, but exceeded FDIC limits at various times during the year.

Investments

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

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

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

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

Pledges Receivable

Pledges receivable are reported at the amount management expects to collect on balances outstanding at year end. Management closely monitors outstanding balances and writes off, as of yearend, all balances that are determined to be uncollectible. The Organization has received installments on a larger bequest gift. A pledge receivable has not been recorded for any future installments as the amount cannot be reasonably estimated at this time.

Property, Equipment, and Leasehold Improvements

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

Loan Costs

Loan fees totaling \$90,073 associated with refinancing long-term debt on LSF Properties, Inc. are amortized over the life of the note. At June 30, 2014 and 2013, \$19,946 and \$17,372 had been amortized, respectively.

Contributions

Contributions received and unconditional promises to give (pledges receivable) are measured at fair value and are recognized as increases in net assets when received or promised. The Organization reports contributions as temporarily restricted if they are received with donor stipulations that limit the use of the donation, or if they are designated as support for future periods. The Organization considers special gifts to be those gifts that are significant, non-budgeted gifts.

When a donor restriction expires, i.e., when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts received with restrictions that are satisfied within the same year are recorded as increases in unrestricted net assets. Pledges receivable of \$135,489 and \$198,333 are unconditional promises to give as of June 30, 2014 and 2013, respectively, and are expected to be received within the next fiscal year. Pledges receivable expected to be received in over one year of June 30, 2014 and 2013, respectively, were \$0 and \$7,500.

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated Services

Donated services are recognized as contributions in accordance with "FASB Accounting Standards Codification 958-605-15, Contributions Received", if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. However, a substantial number of volunteers have donated significant amounts of their time to the Organization's programs, special, and fundraising events which is not included in the financial statements.

Donated Materials

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

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statements of functional expenses. Expenses are charged to program services and supporting activities (management and general, special events and fund development) on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Non Operational Revenue and Expenses

Contributions typically classified as one time gifts to savings or endowment that are not part of the annual operational development plan is deemed non operational revenue. Secondly, investment revenue either realized or unrealized in excess of the board approved spending limit is also non operational revenue. All other revenue is deemed to be operational revenue for reporting purposes. Expenses for special projects that are not part of the operational development plan, such as merger related expenses, are deemed non operational expenses.

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

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

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income ("UBIT"). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the years ended June 30, 2014 and 2013.

The Organization's information returns for the years ending June 30, 2014, 2013, 2012, and 2011 are subject to examination by the IRS, generally for 3 years after they were filed.

Inter-Organizational Accounts

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

NOTE 3 MERGER OF OPERATIONS

On July 1, 2012, Life Skills Foundation and Touchpoint Autism Services, Inc. completed a merger of their operations. Both Life Skills Foundation and Touchpoint Autism Services, Inc. provided assistance to individuals with developmental disabilities and autism in the St. Louis area and state-wide. As a result of the merger, the combined organization was renamed *Life Skills*. Through their merger, Life Skills seeks to further their common mission of serving more individuals with disabilities, including autism, and achieving economies of scale and other synergies through integrating their service delivery.

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 3 MERGER OF OPERATIONS (CONTINUED)

As of July 1, 2012, the major classes of assets, liabilities, and net assets of Life Skills Foundation and Touchpoint Autism Services, Inc. are as follows:

Assets	Life Skills Foundation	TouchPoint Autism Services	Total Life Skills
Current Assets			
Cash and cash equivalents	\$ 816,186	\$ 94,094	\$ 910,280
Accounts receivable (net of allowance for uncollectible accounts of \$23,131 and \$24,810, respectively)	2,756,712	1,233,534	3,990,246
Investments	298,776	-	298,776
Grants receivable	-	154,711	154,711
Pledges receivable	67,874	420	68,294
Due from employees	-	3,567	3,567
Due from related party	100,000	-	100,000
Prepaid expenses	65,550	49,680	115,230
Security deposits - funded	7,780	-	7,780
Total Current Assets	<u>4,112,878</u>	<u>1,536,006</u>	<u>5,648,884</u>
Property, Equipment, and Leasehold Improvements, (net of accumulated depreciation of \$1,193,274 and \$1,184,350, respectively):	2,302,545	1,885,576	4,188,121
Assets Restricted for Endowment	3,461,984	-	3,461,984
Other Assets (net of accumulated amortization of \$822)	<u>270,185</u>	<u>149,098</u>	<u>419,283</u>
Total Assets	<u>\$ 10,147,592</u>	<u>\$ 3,570,680</u>	<u>\$ 13,718,272</u>
Liabilities and Net Assets			
Current Liabilities			
Line-of-credit	\$ -	\$ 953,335	\$ 953,335
Current maturities of long-term debt	29,419	222,702	252,121
Current portion of capital lease	-	9,762	9,762
Accounts payable	335,027	134,515	469,542
Due to Life Skills	-	203,110	203,110
Accrued salaries and related expenses	1,076,962	425,597	1,502,559
Accrued expenses and other liabilities	14,566	13,764	28,330
Security deposits	7,780	-	7,780
Total Current Liabilities	<u>1,463,754</u>	<u>1,962,785</u>	<u>3,426,539</u>

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 3 MERGER OF OPERATIONS (CONTINUED)

Long-Term Liabilities			
Long-term debt, less current maturities	\$ 2,306,434	\$ 1,165,222	\$ 3,471,656
Long-term portion of capital lease	<u>-</u>	<u>15,077</u>	<u>15,077</u>
Total Long-Term Liabilities	<u>2,306,434</u>	<u>1,180,299</u>	<u>3,486,733</u>
Total Liabilities	<u>3,770,188</u>	<u>3,143,084</u>	<u>6,913,272</u>
Net Assets			
Unrestricted	4,497,937	332,976	4,830,913
Temporarily restricted	301,123	94,620	395,743
Permanently restricted	<u>1,578,344</u>	<u>-</u>	<u>1,578,344</u>
Total Net Assets	<u>6,377,404</u>	<u>427,596</u>	<u>6,805,000</u>
Total Liabilities and Net Assets	<u>\$ 10,147,592</u>	<u>\$ 3,570,680</u>	<u>\$ 13,718,272</u>

As of June 30, 2012, TouchPoint Autism Services, Inc. had an outstanding loan from Life Skills in the amount of \$100,000 and other payables of \$103,110. As the entities merged on July 1, 2012, these receivables were no longer outstanding. There were no other material transactions between Life Skills Foundation and TouchPoint Autism Services, Inc. prior to the merger and there were no material adjustments to conform the accounting policies of the consolidating organizations.

NOTE 4 PRIOR PERIOD RESTATEMENT

During the 2014 fiscal year, Easter Seals Midwest performed an analysis of the accounts receivable balance and due to the merger as described in Note 3, bad debt write off of \$343,480 and allowance for uncollectible receivables of \$200,000 was not adequately recorded in the year of the merger. As a result, the 2013 consolidated financial statements have been restated to reflect an increase in bad debt expense of \$543,480, an increase in the allowance for doubtful accounts of \$200,000, and a reduction in accounts receivable of \$343,480.

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 I) and the lowest priority to unobservable inputs (level III). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level I – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Level II – Inputs to the valuation methodology include: 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; and 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 II input must be observable for substantially the full term of the asset or liability.

Level III – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2014 and June 30, 2013.

Exchange-traded and closed-ended funds: Value is based upon the most recent closing prices of the assets in the fund and an actual accounting of the cash in the fund at the time of calculation, less any liabilities of the fund.

Mutual funds: Valued at the published asset value per share as of the reporting date.

Unconditional promises to give are considered to be Level III assets. The Organization records unconditional promises to give at the full promise amount, which is not deemed to be materially different than the net present value for promises to be received within the next fiscal year.

Fair values of assets measured on a recurring basis as of June 30, 2014 and June 30, 2013 are as follows:

	<u>(Level I)</u>	<u>Fair Value Measurements Using:</u>		<u>Total</u>
		<u>(Level II)</u>	<u>(Level III)</u>	
<u>June 30, 2014</u>				
Assets				
Cash and cash equivalents	\$ 621,714	\$ -	\$ -	\$ 621,716
Exchange-traded and closed-end funds	4,779,780	-	-	4,779,780
Mutual funds				
Bonds	1,160,212	-	-	1,160,212
Bank Loans	272,978	-	-	272,978
Blend	824	-	-	824
Value	5,747	-	-	5,747
Foreign blend	1,946	-	-	1,946
Fixed incomes	11,199	-	-	11,191
Growth	6,650	-	-	6,650
Pledges receivable	-	-	135,489	135,489
Total Assets	<u>\$ 6,861,050</u>	<u>\$ -</u>	<u>\$ 205,838</u>	<u>\$ 6,996,539</u>

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

<u>June 30, 2013</u>	<u>(Level I)</u>	<u>(Level II)</u>	<u>(Level III)</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 312,328	\$ -	\$ -	\$ 312,328
Exchange-traded and closed-end funds	3,625,639	-	-	3,625,639
Mutual funds				
Bonds	1,530,962	-	-	1,530,962
Multi-alternative Natural resources	414,727	-	-	414,727
Blend	116,935	-	-	116,935
Value	717	-	-	717
Foreign blend	5,875	-	-	5,875
Fixed income	1,611	-	-	1,611
Growth	12,021	-	-	12,021
Pledges receivable	7,002	-	-	7,002
	-	-	205,838	142,899
Total Assets	\$ 6,027,817	\$ -	\$ 205,838	\$ 6,170,716

The following table provides further details of the pledges receivable to give fair value measurements:

Balance at June 30, 2012	\$ 68,294
Pledges Promised	513,806
Pledges Paid	<u>(376,262)</u>
Balance at June 30, 2013	205,838
Pledges Promised	267,437
Pledges Paid	<u>(337,786)</u>
Balance at June 30, 2014	<u>\$ 135,489</u>

Valuation techniques utilized to determine fair values are consistently applied.

NOTE 6 PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Property, equipment, and leasehold improvements consist of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Buildings and land	\$ 5,598,071	\$ 5,666,466
Leasehold improvements	129,364	77,008
Equipment and software	2,958,535	2,548,096
Vehicles	185,746	185,746
Work in process	<u>80,676</u>	<u>129,086</u>
	8,952,392	8,606,402
Less: Accumulated depreciation	<u>(4,984,794)</u>	<u>(4,428,161)</u>
	<u>\$ 3,967,598</u>	<u>\$ 4,178,241</u>

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 7 LINES-OF-CREDIT

The Organization has a \$2,000,000 revolving line-of-credit, collateralized by a Commercial Pledge Agreement, multiple Deeds of Trust, and multiple Assignments of Rents. Bank advances on the credit line are subject to a minimum monthly payment of interest only and carry an interest rate equal to the Index Rate minus 1.00 percentage point with a rate of 2.25% as of June 30, 2014 and 2013. At June 30, 2014 and 2013, the Organization had outstanding balances on its line-of-credit of \$1,692,173 and \$701,010, respectively. The financial statements are due to the bank within 120 days of yearend. The line-of-credit was renewed subsequent to yearend with an available principal amount of \$2,500,000.

The Organization has a \$2,000,000 revolving line-of-credit, collateralized by a Commercial Pledge Agreement, multiple Deeds of Trust, and multiple Assignments of Rents. Bank advances on the credit line are subject to a minimum monthly payment of interest only and carry an interest rate equal to the Index Rate minus 0.50 percentage points with a rate of 2.75% as of June 30, 2014 and June 30, 2013. At June 30, 2014 and June 30, 2013, the Organization had no outstanding balances on its line-of-credit. The financial statements are due to the bank within 120 days of yearend. The line-of-credit was renewed subsequent to yearend with an available principal amount of \$2,500,000.

NOTE 8 LONG-TERM DEBT

Long-term debt consisted of the following at June 31:

	<u>2014</u>		<u>2013</u>
Note Payable – Productive Living Board, secured by first deed of trust on Calverton property, principal payable in monthly installments of \$372, non-interest bearing, final installment due September 2020.	\$ 28,106	\$	32,573
Note Payable – Productive Living Board, secured by first deed of trust on Forest Home property, principal payable in monthly installments of \$305, non-interest bearing, final installment due April 2022, subject to a prepayment penalty.	29,001		32,664
Note Payable – Productive Living Board, secured by first deed of trust on Dobbin property, principal payable in monthly installments of \$304, non-interest bearing, final installment due in May 2022, subject to a use restriction on the property.	28,898		32,548
Note Payable – bank, secured by first deed of trust on Weber Road property, payable in monthly installments of \$6,648 including principal and interest at a fixed rate of 4.75%. The final balloon payment is due April 2016.	533,218		585,914

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 8 LONG-TERM DEBT (CONTINUED)

Note Payable – bank, secured by a Commercial Security Agreement, payable in monthly installments of \$553 including principal and interest at a fixed rate of 4%. The final balloon payment is due October 2015.	\$	8,530	\$	14,680
 Note Payable – bank, secured by first deed of trust on certain properties, payable in monthly installments of \$3,907 including principal and interest at a fixed rate of 4.75%. The final installment payment is due July 2028.		 426,365		 478,652
 Note payable - bank, secured by a first deed of trust on land and buildings, insured by HUD, payable in monthly installments of \$14,306 including principal and interest at a fixed rate of 6.125%. The final installment payment is due October 2041.		 <u>2,275,023</u>		 <u>2,306,295</u>
		3,329,141		3,483,326
Less: Current Maturities		<u>168,149</u>		<u>127,008</u>
	\$	<u>3,160,992</u>	\$	<u>3,356,318</u>

The following are scheduled maturities of long-term debt for each of the next five years and in the aggregate at June 30:

2015	168,149
2016	171,702
2017	177,678
2018	168,734
2019	169,919
Thereafter	<u>2,472,959</u>
	\$ <u>3,329,141</u>

NOTE 9 ENDOWMENT FUNDS

The Organization's endowment consists of five individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 9 ENDOWMENT FUNDS (CONTINUED)

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

At June 30, 2014, the Organization had the following endowment funds:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 564,125	\$ 2,032,890	\$ 2,597,015
Board-designated quasi-endowment funds	2,256,935	-	-	2,256,935
	\$ 2,256,935	\$ 564,125	\$ 2,032,890	\$ 4,853,950

At June 30, 2013, the Organization had the following endowment funds:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 41,519	\$ 1,896,526	\$ 1,938,045
Board-designated quasi-endowment funds	1,979,313	-	-	1,979,313
	\$ 1,979,313	\$ 41,519	\$ 1,896,526	\$ 3,917,358

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 9 ENDOWMENT FUNDS (CONTINUED)

The changes in the endowment funds for the fiscal years ended June 30, 2014 and 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Assets - July 1, 2013	\$ 1,979,313	\$ 41,519	\$ 1,896,526	\$ 3,917,358
Investment Return				
Interest and dividends, net of fees	43,676	87,206	-	130,882
Net realized and unrealized gain	<u>233,946</u>	<u>466,012</u>	<u>-</u>	<u>699,958</u>
Total Investment Return	277,622	553,218	-	559,045
Contributions	-	-	136,364	136,364
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(30,612)</u>	<u>-</u>	<u>(30,612)</u>
Endowment Assets - June 30, 2014	\$ 2,256,935	\$ 564,125	\$ 2,032,890	\$ 4,853,950
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Assets - July 1, 2012	\$ 1,868,051	\$ 15,589	\$ 1,578,344	\$ 3,461,984
Investment Return				
Interest and dividends	31,355	29,422	-	60,777
Net realized and unrealized loss	<u>100,667</u>	<u>94,468</u>	<u>-</u>	<u>195,135</u>
Total Investment Return	132,022	123,890	-	255,912
Contributions	-	-	318,182	318,182
Appropriation of endowment assets for expenditure	<u>(20,760)</u>	<u>(97,960)</u>	<u>-</u>	<u>(118,720)</u>
Endowment Assets - June 30, 2013	\$ 1,979,313	\$ 41,519	\$ 1,896,526	\$ 3,917,358

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 9 ENDOWMENT FUNDS (CONTINUED)

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index and Bond index based on asset allocation while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 6-8% annually. Actual returns in any given year may vary from this amount.

Strategies Employed For Achieving Objectives

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

Spending Policy And How The Investment Objectives Relate To Spending Policy

During 2011, the Organization adopted a policy of appropriating for distribution each year a rate of no more than 5% of the Endowment Fund's average assets of the immediately preceding eight quarters as of July 1st while complying with any donor-imposed restrictions. The board has approved a limit of 4% as the spending limit for the years ended June 30, 2014 and 2013. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow on an annual basis. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Unrestricted Net Assets

Unrestricted net assets include amounts designated by the Board for specific purposes and reserves as required by HUD.

Easter Seals Midwest's Board has designated net assets of \$2,256,935 and \$1,979,313 at June 30, 2014 and 2013, respectively, as principal, which is to be maintained similarly to the permanently restricted net assets. Interest and dividends on these designated assets are available for unrestricted use.

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 9 ENDOWMENT FUNDS (CONTINUED)

Unrestricted Net Assets (Continued)

LSF Properties receives funds from HUD. HUD requires that a restricted cash fund be maintained for the replacement of apartment property. All disbursements from the fund must be approved by HUD. As of June 30, 2014 and 2013, the balances in this reserve are \$125,409 and \$99,267, respectively. HUD also requires that surplus cash related to these apartments, as specifically determined by HUD, be deposited to a residual receipts account within 60 days of LSF Properties' fiscal year end. At June 30, 2014 and 2013, no deposit is required. All disbursements of residual receipts must be approved by HUD. As of June 30, 2014 and 2013, the residual receipt account balance is \$105 and \$12,105, respectively.

NOTE 10 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets from public support were restricted as follows as of June 30:

	<u>2014</u>	<u>2013</u>
Learning center	\$ 164,106	\$ 143,921
Training	13,728	76,746
Loan fund	37,266	37,266
Timing Restrictions	146,742	164,925
CAT	-	11,803
Clinical	25,000	8,580
Outreach	-	45,745
Autism Services	11,494	8,340
Innovation	1,859,965	1,801,688
Scholarships	10,625	-
Individual Support	-	-
Annuity	2,658	-
Service Fees	17,153	-
NAP Credits	10,039	-
Employment	<u>184,389</u>	<u>29,903</u>
	\$ <u>2,482,166</u>	\$ <u>2,328,917</u>
Net assets released as of June 30:		
Program restrictions	\$ 1,254,449	\$ 544,764
Timing restrictions	<u>48,715</u>	<u>136,015</u>
Total net assets released	\$ <u>1,303,164</u>	\$ <u>680,779</u>

NOTE 11 SUPPLEMENTAL CASH FLOW INFORMATION

The Organization paid \$77,249 and \$77,381 for interest during the years ended June 30, 2014 and 2013, respectively.

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 12 SPECIAL EVENTS

Special events consist of the following at June 30:

	Revenues	Expenses	Net
June 30, 2014			
Festival of Trees	\$ 389,266	\$ 88,762	\$ 300,504
Golf Tournaments	375,749	126,278	249,471
Walk Run-n-Roll	39,959	27,704	12,255
Central Missouri Events	28,871	640	28,231
Other	46,406	26,906	19,500
	<u>\$ 880,251</u>	<u>\$ 270,290</u>	<u>\$ 609,961</u>
June 30, 2013			
Festival of Trees	\$ 461,515	\$ 64,091	\$ 397,424
Golf Tournaments	564,468	129,764	434,704
Walk Run-n-Roll	93,690	48,074	45,616
Central Missouri Events	31,604	2,376	29,228
Other	48,234	3,773	44,461
	<u>\$ 1,199,511</u>	<u>\$ 248,078</u>	<u>\$ 951,433</u>

NOTE 13 LEASE COMMITMENTS

The Organization leases office space under a non-cancellable operating lease. The Organization also leases various office equipment and vehicles. All of these are non-cancellable operating leases that have various expiration dates through 2019. Rent expense is recognized on a straight-line basis over the life of each lease. Total rent expense for the years ended June 30, 2014 and 2013 was \$842,260 and \$800,391, respectively.

Future minimum lease payments are as follows at June 30:

2015	\$ 916,673
2016	1,036,984
2017	838,622
2018	567,600
2019 and beyond	<u>310,112</u>
	<u>\$ 3,669,991</u>

Other

The Organization contracts with several government agencies to provide services for people with developmental disabilities and autism. The contracts specify rates of payment based upon budgeted cost information submitted by the Organization. The governmental agencies retain the right to request reimbursement for overpayments in cases where they determine that the Organization's budgeted costs were not accurate. Any liability for reimbursement, should it arise, is not believed to be material.

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 14 CONCENTRATION OF CREDIT RISK

Approximately 77% and 73% of the Organization's total public support and revenue was received from the Missouri Department of Mental Health ("DMH") for the years ended June 30, 2014 and 2013, respectively. The majority of the Organization's program revenue is through contractual arrangements with state and local agencies and school districts as follows at June 30:

		<u>2014</u>		<u>2013</u>
Missouri Department of Mental Health	\$	31,060,286	\$	30,538,857
St. Louis County – Productive Living Board		3,347,315		3,168,348
St. Louis Office of DDRB		661,876		573,044

NOTE 15 GRANT CONTINGENCIES

The Organization has received grants from the St. Louis Office of DDR which were used to purchase equipment and renovate buildings. According to the terms of the grants, if the Organization disposes of, sells, trades, or in any other way alters the ownership of the property, the Organization must reimburse the grantor according to a schedule of declining percentages.

At June 30, 2014, contingent reimbursements were as follows:

	<u>Date</u> <u>Contingency</u> <u>Begins</u>	<u>Date</u> <u>Contingency Ends</u>	<u>Original</u> <u>Amount</u>	<u>Current</u> <u>Contingent</u> <u>Liability</u>
Program Equipment	July 2011	July 19, 2016	\$ 8,535	\$ 5,121
Kitchen Equipment/ Renovations	July 2011	July 19, 2021	\$ 14,887	\$ 11,910
Retaining Wall at Weber location	May 2014	No End Date	\$ 17,196	\$ 17,196

At June 30, 2013, contingent reimbursements were as follows:

	<u>Date</u> <u>Contingency</u> <u>Begins</u>	<u>Date</u> <u>Contingency Ends</u>	<u>Original</u> <u>Amount</u>	<u>Current</u> <u>Contingent</u> <u>Liability</u>
Program Equipment	July 2011	July 19, 2016	\$ 8,535	\$ 6,828
Kitchen Equipment/ Renovations	July 2011	July 19, 2021	\$ 14,887	\$ 13,398

NOTE 16 EMPLOYEE DEFERRAL COMPENSATION PLAN

Prior to the merger, TouchPoint had a Section 401(k) Plan for employees who met certain requirements. It was TouchPoint's policy to contribute a percentage to the Plan based upon the employees' contributions. During the year ended June 30, 2013, TouchPoint's contributions to the Plan were \$7,342. This plan was terminated during fiscal year 2013. The Organization utilized the 403(b) benefit plan originally established by Easter Seals Midwest as noted below.

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 16 EMPLOYEE DEFERRAL COMPENSATION PLAN (CONTINUED)

The Organization has a 403(b) plan that covers eligible employees with one year tenure and 1,000 hours or more worked. The plan allows the participants to make contributions to the plan through salary deferrals. The plan also requires the Organization to match 50% of each employee's contributions up to 6% of the employee's annual base compensation, thereby resulting in a maximum matching contribution of 3%. The Organization's contributions to the plan totaled \$126,617 and \$130,331 for the years ended June 30, 2014 and 2013, respectively.

NOTE 17 LITIGATION

The Organization is involved in legal actions arising in the normal course of business. After taking into consideration legal counsel's evaluation of such actions, management is of the opinion that their outcome will not have a significant effect on the Organization's financial statements. The Organization has sufficient insurance to handle the risk associated with these legal actions.

NOTE 18 SUBSEQUENT EVENTS

Triality, Inc., a 501(c)(3) organization providing similar services in the Kansas City area, became part of the Organization as a result of a merger effective July 1, 2014.

Management has evaluated subsequent events through the date of the independent auditors' report, the date the financial statements were available to be issued.

ADDITIONAL INFORMATION

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014**

<u>ASSETS</u>	<u>Easter Seals Midwest</u>	<u>LSF Properties, Inc.</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 6,300	\$ 12,992	\$ 19,292
Investments	2,007,100	-	2,007,100
Accounts receivable (net of allowance for uncollectible accounts of \$232,548, respectively)	5,042,704	456	5,043,160
Pledges receivable	135,489	-	135,489
Prepaid expenses	22,961	-	22,961
Restricted deposits and funded reserves	-	138,393	138,393
Total Current Assets	<u>7,214,554</u>	<u>151,841</u>	<u>7,366,395</u>
Property, Equipment, and Leasehold Improvements (net of accumulated depreciation of \$4,984,794)	<u>2,796,142</u>	<u>1,171,456</u>	<u>3,967,598</u>
Other Assets			
Intangible assets	-	70,127	70,127
Security deposits	70,254	9,215	79,469
Assets restricted / designated for endowment	4,853,950	-	4,853,950
Total Other Assets	<u>4,924,204</u>	<u>79,342</u>	<u>5,003,546</u>
Total Assets	\$ <u>14,934,900</u>	\$ <u>1,402,639</u>	\$ <u>16,337,539</u>
 <u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities			
Line-of-credit	\$ 1,692,173	\$ -	\$ 1,692,173
Current maturities of long-term debt	134,906	33,243	168,149
Current portion of capital leases	6,113	-	6,113
Accounts payable	730,261	20,893	751,154
Accrued salaries and related expenses	1,708,251	-	1,708,251
Accrued expenses and other liabilities	29,537	21,346	50,883
Total Current Liabilities	<u>4,301,241</u>	<u>75,482</u>	<u>4,376,723</u>
Long-Term Liabilities			
Long-term debt, less current maturities	919,212	2,241,780	3,160,992
Long-term capital lease, less current portion	1,677	-	1,677
Total Long-Term Liabilities	<u>920,889</u>	<u>2,241,780</u>	<u>3,162,669</u>
Total Liabilities	<u>5,222,130</u>	<u>2,317,262</u>	<u>7,539,392</u>
Net Assets			
Unrestricted	5,197,714	(914,623)	4,283,091
Temporarily restricted	2,482,166	-	2,482,166
Permanently restricted	2,032,890	-	2,032,890
Total Net Assets	<u>9,712,770</u>	<u>(914,623)</u>	<u>8,798,147</u>
Total Liabilities and Net Assets	\$ <u>14,934,900</u>	\$ <u>1,402,639</u>	\$ <u>16,337,539</u>

See Independent Auditors' Report.

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013 (RESTATED)**

<u>ASSETS</u>	<u>Easter Seals Midwest</u>	<u>LSF Properties, Inc.</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 17,686	\$ 23,710	\$ 41,396
Investments	2,110,459	-	2,110,459
Accounts receivable (net of allowance for uncollectible accounts of \$237,600)	4,639,225	4,335	4,643,560
Pledges receivable	198,338	-	198,338
Prepaid expenses	118,406	-	118,406
Restricted deposits and funded reserves	-	124,127	124,127
Other current assets	-	14,918	14,918
Total Current Assets	<u>7,084,114</u>	<u>167,090</u>	<u>7,251,204</u>
Property, Equipment, and Leasehold Improvements (net of accumulated depreciation of \$4,428,161)			
	<u>2,934,773</u>	<u>1,243,468</u>	<u>4,178,241</u>
Other Assets			
Intangible assets	-	72,701	72,701
Long-term pledges receivable	7,500	-	7,500
Security deposits	18,373	7,309	25,682
Assets restricted / designated for endowment	3,917,358	-	3,917,358
Total Other Assets	<u>3,943,231</u>	<u>80,010</u>	<u>4,023,241</u>
Total Assets	\$ <u>13,962,118</u>	\$ <u>1,490,568</u>	\$ <u>15,452,686</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities			
Line-of-credit	\$ 701,010	\$ -	\$ 701,010
Current maturities of long-term debt	95,735	31,273	127,008
Current portion of capital leases	7,403	-	7,403
Accounts payable	460,800	31,085	491,885
Accrued salaries and related expenses	1,928,844	-	1,928,844
Accrued expenses and other liabilities	109,602	7,309	116,911
Total Current Liabilities	<u>3,303,394</u>	<u>69,667</u>	<u>3,373,061</u>
Long-Term Liabilities			
Long-term debt, less current maturities	1,081,296	2,275,022	3,356,318
Long-term capital lease, less current portion	8,166	-	8,166
Total Long-Term Liabilities	<u>1,089,462</u>	<u>2,275,022</u>	<u>3,364,484</u>
Total Liabilities	<u>4,392,856</u>	<u>2,344,689</u>	<u>6,737,545</u>
Net Assets			
Unrestricted	5,343,819	(854,121)	4,489,698
Temporarily restricted	2,328,917	-	2,328,917
Permanently restricted	1,896,526	-	1,896,526
Total Net Assets	<u>9,569,262</u>	<u>(854,121)</u>	<u>8,715,141</u>
Total Liabilities and Net Assets	\$ <u>13,962,118</u>	\$ <u>1,490,568</u>	\$ <u>15,452,686</u>

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Easter Seals Midwest</u>	<u>LSF Properties, Inc.</u>	<u>Total</u>
Operational Revenue			
Program Service Revenue	\$ 37,104,518	\$ 459,009	\$ 37,563,527
Contributions and Grants	971,589	-	971,589
Special Events	880,251	-	880,251
Investment Income within Board Spending Limit	180,252	345	180,597
Gain on Sale of Assets	11,351	-	11,351
Miscellaneous Income	<u>203,836</u>	<u>5,228</u>	<u>209,064</u>
Total Operational Revenue	39,351,797	464,582	39,816,379
Functional Expenses			
Program Services	34,609,313	432,591	35,041,904
Management and General	4,207,142	92,493	4,299,635
Special Events	270,290	-	270,290
Fund Development	<u>717,575</u>	<u>-</u>	<u>717,575</u>
Total Expenses	<u>39,804,320</u>	<u>525,084</u>	<u>40,329,404</u>
Operational Changes in Net Assets	(452,523)	(60,502)	(513,025)
Non Operational Revenue (Expenses)			
Special Gifts	136,364	-	136,364
Investment Income	655,098	-	655,098
Special Project Expenses	<u>(195,431)</u>	<u>-</u>	<u>(195,431)</u>
Total Non Operational Revenue (Expenses)	596,031	-	596,031
Changes in Net Assets	143,508	(60,502)	83,006
Net Assets, beginning of year	<u>9,569,262</u>	<u>(854,121)</u>	<u>8,715,141</u>
Net Assets, end of year	\$ <u>9,712,770</u>	\$ <u>(914,623)</u>	\$ <u>8,798,147</u>

**EASTER SEALS MIDWEST
(FORMERLY LIFE SKILLS)
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013 (RESTATED)**

	<u>Easter Seals Midwest</u>	<u>LSF Properties, Inc.</u>	<u>Total</u>
Operational Revenue			
Program Service Revenue	\$ 36,226,153	\$ 460,686	\$ 36,686,839
Contributions and Grants	856,236	-	856,236
Special Events	1,199,511	-	1,199,511
Investment Income within Board Spending Limit	137,000	873	137,873
Miscellaneous Income	<u>182,277</u>	<u>4,641</u>	<u>186,918</u>
Total Operational Revenue	38,601,177	466,200	39,067,377
Functional Expenses			
Program Services	32,949,769	487,567	33,437,336
Management and General	5,057,352	88,473	5,145,825
Special Events	248,078	-	248,078
Fund Development	<u>685,903</u>	<u>-</u>	<u>685,903</u>
Total Expenses	<u>38,941,102</u>	<u>576,040</u>	<u>39,517,142</u>
Operational Changes in Net Assets	(339,925)	(109,840)	(449,765)
Non Operational Revenue (Expenses)			
Special Gifts	2,071,130	-	2,071,130
Investment Income	<u>197,898</u>	<u>-</u>	<u>197,898</u>
Total Non Operational Revenue (Expenses)	2,269,028	-	2,269,028
Changes in Net Assets	1,929,103	(109,840)	1,819,263
Net Assets, beginning of year	<u>7,640,159</u>	<u>(744,281)</u>	<u>6,895,878</u>
Net Assets, end of year	<u>\$ 9,569,262</u>	<u>\$ (854,121)</u>	<u>\$ 8,715,141</u>