
EASTER SEALS MIDWEST

FINANCIAL STATEMENTS

JUNE 30, 2017



Contents

	Page
Independent Auditors' Report	1 - 2
 Financial Statements	
Statement Of Financial Position.....	3
Statements Of Activities	4 - 5
Statements Of Functional Expenses.....	6 - 7
Statement Of Cash Flows.....	8
Notes To Financial Statements.....	9 - 24

Independent Auditors' Report

Board of Directors
Easter Seals Midwest
St. Louis, Missouri

Report On The Financial Statements

We have audited the financial statements of Easter Seals Midwest, a not-for-profit organization, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility For The Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Easter Seals Midwest as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Report On Comparative Information

Easter Seals Midwest's 2016 financial statements were previously audited by other auditors, and their report dated December 21, 2016, expressed an unmodified opinion on those audited financial statements

RubinBrown LLP

November 27, 2017

EASTER SEALS MIDWEST
STATEMENT OF FINANCIAL POSITION

Assets	June 30,	
	2017	2016
Current Assets		
Cash and cash equivalents	\$ 449,312	\$ 209,078
Investments (Note 3)	728,043	1,968,833
Accounts receivable (net of allowance for uncollectible accounts of \$195,000 and \$72,846 in 2017 and 2016, respectively)	8,502,660	6,835,299
Pledges receivable	194,370	248,928
Prepaid expenses	180,028	35,584
Total Current Assets	10,054,413	9,297,722
Property, Equipment And Leasehold Improvements (Note 4)	1,897,282	1,939,260
Other Assets		
Security deposits	109,157	99,324
Assets restricted/designated for endowment (Notes 3 and 7)	6,716,108	4,643,727
Total Other Assets	6,825,265	4,743,051
Total Assets	\$ 18,776,960	\$ 15,980,033
Liabilities And Net Assets		
Current Liabilities		
Lines of credit (Note 5)	\$ 1,685,873	\$ 1,529,595
Current maturities of long-term debt (Note 6)	151,230	177,489
Accounts payable	864,989	480,984
Accrued salaries and related expenses (Note 13)	4,283,326	3,054,142
Deferred revenue	—	121,160
Accrued expenses and other liabilities	19,300	75,772
Total Current Liabilities	7,004,718	5,439,142
Long-Term Debt (Note 6)	414,021	563,124
Total Liabilities	7,418,739	6,002,266
Net Assets		
Unrestricted:		
Operations	2,784,772	1,563,879
Investment in property, equipment and leasehold improvements, net of related debt	1,332,031	1,198,647
Board designated endowment	2,581,463	2,247,030
Total Unrestricted	6,698,266	5,009,556
Temporarily restricted (Note 8)	525,310	2,571,514
Permanently restricted (Note 7)	4,134,645	2,396,697
Total Net Assets	11,358,221	9,977,767
Total Liabilities And Net Assets	\$ 18,776,960	\$ 15,980,033

EASTER SEALS MIDWEST

STATEMENT OF ACTIVITIES For The Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Program service revenue (Note 10)	\$ 59,171,871	\$ —	\$ —	\$ 59,171,871
Contributions and grants	313,780	268,651	—	582,431
Investment return designated for current operations per spending policy	243,996	—	—	243,996
Special events	962,849	5,752	—	968,601
Net assets released from restrictions (Note 8)	675,056	(675,056)	—	—
Clarification of donor intent (Note 8)	154,600	(1,857,548)	1,702,948	—
Miscellaneous income	132,479	—	—	132,479
Total Operating Revenues	61,654,631	(2,258,201)	1,702,948	61,099,378
Functional Expenses				
Program services	53,617,426	—	—	53,617,426
Management and general	6,377,291	—	—	6,377,291
Special events	206,663	—	—	206,663
Fund development	919,580	—	—	919,580
Total Functional Expenses	61,120,960	—	—	61,120,960
Excess (Deficiency) Of Operating Revenues Over Functional Expenses	533,671	(2,258,201)	1,702,948	(21,582)
Other Revenues And Support				
Endowment capital campaign	91,976	—	50,000	141,976
Investment income, net of spending policy	303,188	211,997	—	515,185
Gain on sale of fixed assets	2,442	—	—	2,442
Capital grant revenue	26,318	—	—	26,318
Expansion capacity revenue (Note 14)	731,115	—	—	731,115
Net assets released for endowment campaign (Note 7)	—	—	(15,000)	(15,000)
Total Other Revenues And Support	1,155,039	211,997	35,000	1,402,036
Increase (Decrease) In Net Assets	1,688,710	(2,046,204)	1,737,948	1,380,454
Net Assets - Beginning Of Year	5,009,556	2,571,514	2,396,697	9,977,767
Net Assets - End Of Year	\$ 6,698,266	\$ 525,310	\$ 4,134,645	\$ 11,358,221

EASTER SEALS MIDWEST

STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Program service revenue (Note 10)	\$ 49,754,746	\$ —	\$ —	\$ 49,754,746
Contributions and grants	531,476	191,637	—	723,113
Investment return designated for current operations per spending policy	310,000	—	—	310,000
Special events	783,547	70,392	—	853,939
Net assets released from restrictions (Note 8)	351,239	(351,239)	—	—
Miscellaneous income	284,083	—	—	284,083
Total Operating Revenues	52,015,091	(89,210)	—	51,925,881
Functional Expenses				
Program services:	45,241,422	—	—	45,241,422
Management and general	5,388,641	—	—	5,388,641
Special events	224,440	—	—	224,440
Fund development	849,849	—	—	849,849
Total Functional Expenses	51,704,352	—	—	51,704,352
Excess (Deficiency) Of Operating Revenues Over Functional Expenses				
	310,739	(89,210)	—	221,529
Other Revenues, Support And Losses				
Endowment capital campaign	—	—	190,336	190,336
Investment income, net of spending policy	(294,231)	—	—	(294,231)
Loss on sale of fixed assets	(449,283)	—	—	(449,283)
Net assets released for endowment campaign (Note 7)	55,486	—	(55,486)	—
Total Other Revenues, Support And Losses	(688,028)	—	134,850	(553,178)
Increase (Decrease) In Net Assets	(377,289)	(89,210)	134,850	(331,649)
Net Assets - Beginning Of Year	5,386,845	2,660,724	2,261,847	10,309,416
Net Assets - End Of Year	\$ 5,009,556	\$ 2,571,514	\$ 2,396,697	\$ 9,977,767

EASTER SEALS MIDWEST

STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended June 30, 2017

	Program	Management And General	Fund Development	Total Expenses
Salaries	\$ 39,146,615	\$ 3,454,674	\$ 623,306	\$ 43,224,595
Payroll taxes	3,023,141	258,145	43,442	3,324,728
Employee benefits	3,009,452	314,884	54,368	3,378,704
Worker's compensation	936,504	105,497	19,189	1,061,190
Total Salaries And Related Expenses	46,115,712	4,133,200	740,305	50,989,217
Accreditation fees	549	10,395	—	10,944
Advertising and printing	8,422	16,171	37,965	62,558
Auto expense	675,307	28,490	—	703,797
Bad debt expense	451,417	—	—	451,417
Bank charges and fees	6,207	28,059	18,978	53,244
Board expense	230	33,280	5,300	38,810
Client assistance	933,587	—	—	933,587
COL bowling scholarships	7,371	—	—	7,371
Conferences and dues	38,700	105,122	4,746	148,568
Employee costs	36,623	323,036	4,960	364,619
Endowment campaign expenses	—	—	15,000	15,000
Buchanan County integration	—	15,298	—	15,298
Equipment	4,415	133,753	—	138,168
Facility costs	16,875	13,221	—	30,096
Insurance	144,348	13,788	2,110	160,246
Interest	—	80,282	—	80,282
Maintenance	340,071	11,965	—	352,036
Marketing expense	2,174	28,142	1,115	31,431
Miscellaneous	—	2,798	232	3,030
Office supplies	105,766	44,982	2,871	153,619
Outside services	213,185	77,232	12,850	303,267
Postage and shipping	34,565	11,659	16,734	62,958
Program supplies	252,790	35,798	9,228	297,816
Professional fees	4,527	115,259	—	119,786
Rent	1,303,028	244,135	—	1,547,163
Software	—	581,385	3,100	584,485
Special event expense	—	—	206,663	206,663
Staff mileage	1,502,587	38,102	3,396	1,544,085
Staff training	29,766	1,661	824	32,251
Telephone	578,230	69,352	7,824	655,406
Travel and entertainment	161,127	104,587	25,822	291,536
Utilities	106,656	2,899	—	109,555
Total Functional Expenses Before Depreciation And Amortization	53,074,235	6,304,051	1,120,023	60,498,309
Depreciation And Amortization	543,191	73,240	6,220	622,651
Total Operational Expenses	\$ 53,617,426	\$ 6,377,291	\$ 1,126,243	\$ 61,120,960

EASTER SEALS MIDWEST

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended June 30, 2016

	Program	Management And General	Fund Development	Total Expenses
Salaries	\$ 32,946,735	\$ 2,959,816	\$ 506,191	\$ 36,412,742
Payroll taxes	2,553,145	218,548	36,738	2,808,431
Employee benefits	2,356,463	245,401	40,412	2,642,276
Worker's compensation	1,027,737	118,488	20,281	1,166,506
Total Salaries And Related Expenses	38,884,080	3,542,253	603,622	43,029,955
Accreditation fees	—	8,125	—	8,125
Advertising and printing	8,175	21,347	28,689	58,211
Auto expense	547,798	36,999	92	584,889
Bad debt expense	120,000	—	—	120,000
Bank charges and fees	7,140	100,321	17,751	125,212
Board expense	223	8,768	184	9,175
Client assistance	945,198	—	—	945,198
COL bowling scholarships	14,296	—	—	14,296
Conferences and dues	40,997	108,356	8,742	158,095
Employee costs	73,131	241,626	46	314,803
Endowment campaign expenses	—	—	55,486	55,486
Equipment	63,144	160,322	—	223,466
Facility costs	8,428	12,988	—	21,416
Insurance	174,914	12,453	2,142	189,509
Interest	17	73,496	—	73,513
Maintenance	275,505	20,423	—	295,928
Marketing expense	6,212	18,853	50,457	75,522
Miscellaneous	874	4,519	—	5,393
Office supplies	76,208	36,005	4,289	116,502
Outside services	206,266	115,779	24,135	346,180
Postage and shipping	42,841	10,630	7,540	61,011
Program supplies	185,173	24,508	1,931	211,612
Professional fees	—	62,731	—	62,731
Rent	986,425	246,405	—	1,232,830
Software	—	177,710	9,940	187,650
Special event expense	—	—	224,440	224,440
Staff mileage	1,473,423	28,051	7,477	1,508,951
Staff training	9,754	1,243	3,729	14,726
Telephone	502,591	49,797	4,873	557,261
Travel and entertainment	115,397	91,149	11,731	218,277
Utilities	87,836	3,795	—	91,631
Total Functional Expenses Before Depreciation and Amortization	44,856,046	5,218,652	1,067,296	51,141,994
Depreciation And Amortization	385,376	169,989	6,993	562,358
Total Operational Expenses	\$ 45,241,422	\$ 5,388,641	\$ 1,074,289	\$ 51,704,352

EASTER SEALS MIDWEST
STATEMENT OF CASH FLOWS

	For The Years Ended June 30,	
	2017	2016
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 1,380,454	\$ (331,649)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	622,651	562,358
Unrealized (gain) loss on investments	(676,087)	135,412
Realized (gain) loss on investments	1,552	(75)
(Gain) loss on disposal of property	(2,442)	449,283
Contributions restricted for permanent endowment	(50,000)	(190,336)
Changes in assets and liabilities:		
Increase in accounts receivable	(1,667,361)	(513,264)
Decrease in pledges receivable, nonendowment	130,968	17,100
(Increase) decrease in prepaid expenses	(144,444)	37,009
(Increase) decrease in security deposits	(9,833)	121,160
Increase in accounts payable	384,005	1,561
Increase (decrease) in accrued expenses	(56,472)	680,703
Increase (decrease) in accrued payroll	1,229,184	(11,516)
Decrease in deferred revenue	(121,160)	—
Net Cash Provided By Operating Activities	1,021,015	957,746
Cash Flows From Investing Activities		
Proceeds from sale of investments	784,500	385,259
Purchases of investments	(1,094,376)	(536,299)
Purchases of property, equipment and leasehold improvements	(578,231)	(1,043,762)
Proceeds from sale of property, equipment and leasehold improvements	—	550,000
Commissions paid at sale of property	—	(16,500)
Refund on disposal of DDR restricted property	—	(27,835)
Deposits into restricted deposits and funded reserves	—	(16,686)
Net Cash Used In Investing Activities	(888,107)	(705,823)
Cash Flows From Financing Activities		
Net borrowings (payments) on line of credit	156,278	(593,114)
Borrowing on long-term debt	—	801,300
Payments on long-term debt	(168,287)	(603,159)
Payments on capital lease	(7,075)	(2,269)
Contributions restricted for permanent endowment	126,410	126,410
Net Cash Provided By (Used In) Financing Activities	107,326	(270,832)
Net Increase (Decrease) In Cash	240,234	(18,909)
Cash - Beginning Of Year	209,078	227,987
Cash - End Of Year	\$ 449,312	\$ 209,078
Supplemental Disclosure Of Cash Flow Information		
Interest paid	\$ 80,282	\$ 73,513

EASTER SEALS MIDWEST

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 And 2016

1. Summary Of Significant Accounting Policies

Financial Statement Presentation

Easter Seals Midwest (the Organization) has adopted the provisions of the Financial Accounting Standards Board (FASB) in regard to 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 prepares its financial statements on the accrual basis of accounting.

Estimates And Assumptions

The Organization uses estimates and assumptions in preparing its financial statements. 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. Actual results could differ from those estimates.

Cash And Cash Equivalents

The Organization considers all highly liquid 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. At June 30, 2017, cash and cash equivalents in excess of the Federal Deposit Insurance Corporation amounted to approximately \$224,000.

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.

EASTER SEALS MIDWEST

Notes To Financial Statements (*Continued*)

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 statement of financial position. Investments are managed in accordance with a board-approved investment policy by a registered investment firm.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances at year end. 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

Unconditional promises to give (pledges receivable) are recognized as support or gains in the period the promises are received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. The Organization uses the direct write-off method, which, for the Organization, is not considered to be materially different from the allowance method. The Organization records unconditional promises to give at the full promise amount, which is not deemed to be materially different from the net present value for promises to be received in over one year. Unconditional promises to give that are expected to be received in less than one year are classified as current on the statement of financial position. Unconditional promises to give that are expected to be received in over one year are classified as long-term on the statement of financial position. There were no conditional promises to give as of June 30, 2017 or 2016.

Property And 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.

Restricted And Unrestricted Support

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, nonbudgeted 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 statements of activities as net assets released from restrictions. Gifts received with restrictions that are satisfied within the same year are recorded as increases in unrestricted net assets. Pledges receivable of \$341,170 and \$401,098 are unconditional promises to give as of June 30, 2017 and 2016, respectively, and are expected to be received within the next fiscal year. The current pledges receivable include endowment promises to give of \$146,800 and \$152,170 as of June 30, 2017 and 2016, respectively, which are included in assets restricted/designated for endowment. Pledges receivable expected to be received in over one year of June 30, 2017 and 2016 totaled \$170,069 and \$241,109, respectively, which are included in assets restricted/designated for endowment.

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 that meet the criteria for recognition as stated by generally accepted accounting principles (GAAP) are recorded at fair value at the date of donation. A substantial number of volunteers have donated significant amounts of their time to the Organization's programs, special events and fundraising events; however, such donated services have not been recognized as contributions in the financial statements since the aforementioned recognition criteria were not met.

EASTER SEALS MIDWEST

Notes To Financial Statements (*Continued*)

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 have been recorded at fair value at the date of donation.

Expense Allocation

The costs of providing the various programs and activities have been summarized on a functional basis in the statement 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 amongst the programs and supporting services benefited.

Tax Status

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

The Organization's federal and state returns for the years ending June 30, 2016, 2015 and 2014 are subject to examination by taxing authority.

Inter-Organizational Accounts

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

2. Nature Of The Organization

The Organization is a Missouri not-for-profit organization whose mission is to assist individuals with developmental disabilities, including autism, how to 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.

Description Of Program Services And Supporting Activities

The following program services and supporting activities are included in the accompanying 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 develops employment opportunities for individuals in the community, locates paying positions and provides on-the-job support. 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, social skills and behavior modification. Autism Services customizes its services to meet each individual's and family's need for support.

Children's Services

Early Childhood Services help at-risk children achieve more in life. At the early education center, teachers incorporate an age-appropriate curriculum and innovative technology into the learning environment to meet the needs of children with and without special health needs or developmental disabilities, including autism, cerebral palsy and other diagnoses.

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

Notes To Financial Statements (Continued)

Fund Development

Fund development 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.

3. Investments And Assets Restricted/Designated For Endowment

Investments and assets restricted/designated for endowment consist of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 199,314	\$ 160,133
Exchange-traded and closed-end funds	4,937,343	4,188,436
Mutual funds		
Bonds	1,214,776	1,126,204
Bank loans	202,635	194,119
Natural resources	114,430	119,941
Value	332,920	323,646
Foreign value	125,864	106,802
	<u>\$ 7,127,282</u>	<u>\$ 6,219,281</u>

These amounts are reported in the statement of financial position as follows:

	<u>2017</u>	<u>2016</u>
Investments	\$ 728,043	\$ 1,968,833
Assets designated/restricted for endowment	6,399,239	4,250,448
	<u>\$ 7,127,282</u>	<u>\$ 6,219,281</u>

Assets designated/restricted for endowment include promises to give of \$316,869 and \$393,279 at June 30, 2017 and 2016, respectively.

Investments are carried at fair value using quoted prices in active markets (Level 1).

EASTER SEALS MIDWEST

Notes To Financial Statements (Continued)

4. Property And Equipment And Leasehold Improvements

Property and equipment consist of:

	<u>2017</u>	<u>2016</u>
Buildings and land	\$ 6,782	\$ 6,782
Leasehold improvements	716,023	576,382
Equipment and software	4,182,495	4,031,001
Vehicles	429,289	373,175
	<u>5,334,589</u>	<u>4,987,340</u>
Less: Accumulated depreciation	<u>3,437,307</u>	<u>3,048,080</u>
	<u>\$ 1,897,282</u>	<u>\$ 1,939,260</u>

5. Line Of Credit

The Organization has a \$5,000,000 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 were subject to a minimum monthly payment of interest only and carry an interest rate equal to the Index Rate minus 1.25 percentage points with a rate of 3% and 2.25% as of June 30, 2017 and 2016, respectively. The renewed line of credit is collateralized by the Organization's investment account. The line of credit should not exceed 80% of the current market value of the pledged collateral. Should the loan exceed that threshold, the line of credit would be subject to a call provision. At June 30, 2017 and 2016, the Organization had outstanding balances on its line of credit of \$1,685,873 and \$1,529,595, respectively. The line of credit expires on March 5, 2018. The financial statements are due to the bank within 120 days of year end, and the Organization must satisfy a financial covenant.

The Organization has a \$2,000,000 line of credit which bears interest at the Index Rate minus 0.5 percentage point with a rate of 3.75% and 3% as of June 30, 2017 and 2016, respectively. The line of credit is secured by accounts receivable. In 2016, the Organization entered into a promissory note with the bank for \$750,000 (Note 6), requiring monthly payments of \$13,487 at 2.99% interest, which reduced the amount of the available line of credit. At June 30, 2017, the available unused line of credit was \$1,439,116. The line of credit expires on March 5, 2018.

EASTER SEALS MIDWEST

Notes To Financial Statements (Continued)

6. Long-Term Debt

Long-term debt consists of the following:

	<u>2017</u>	<u>2016</u>
Note payable - landlord, payable in monthly installments of \$2,191, including principal and interest at the rate of 2.75%, through maturity in August 2017	\$ 4,367	\$ 30,145
Note payable - bank, payable in monthly installments of \$13,487, including principal and interest at the rate of 2.99%, through maturity in February 2021	560,884	703,393
Note payable - bank, payable in 60 monthly installments of \$581, including interest through maturity in November 2016. The lease is secured by a van.	—	7,075
	<u>565,251</u>	<u>740,613</u>
Less: Current maturities	<u>151,230</u>	<u>177,489</u>
	<u>\$ 414,021</u>	<u>\$ 563,124</u>

The scheduled maturities of the long-term debt at June 30, 2017 are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 151,230
2019	151,377
2020	156,017
2021	106,627
	<u>\$ 565,251</u>

7. Endowment Funds

The Organization's endowment consists of five individual funds as well as one fund created by the Organization's endowment campaign. The funds were established for a variety of purposes. The endowment funds include 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. The fund created by the endowment campaign can be utilized to pay for expenses related to the operation of the campaign. During the years ended June 30, 2017 and 2016, \$15,000 and \$55,486, respectively, was released from the endowment fund campaign to pay for campaign-related expenses.

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.

EASTER SEALS MIDWEST

Notes To Financial Statements (Continued)

At June 30, 2017, the Organization had the following endowment funds:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ —	\$ 100,344	\$ 3,817,776	\$ 3,918,120
Board-designated quasi-endowment funds	2,581,463	—	—	2,581,463
	<u>\$ 2,581,463</u>	<u>\$ 100,344</u>	<u>\$ 3,817,776</u>	<u>\$ 6,499,583</u>

As of June 30, 2016, the Organization had the following endowment funds:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ —	\$ 92,158	\$ 2,003,418	\$ 2,095,576
Board-designated quasi-endowment funds	2,247,030	—	—	2,247,030
	<u>\$ 2,247,030</u>	<u>\$ 92,158</u>	<u>\$ 2,003,418</u>	<u>\$ 4,342,606</u>

EASTER SEALS MIDWEST

Notes To Financial Statements (Continued)

The changes in the endowment funds for the fiscal years ended June 30, 2017 and 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Assets - July 1, 2015	\$ 2,255,240	\$ 92,158	\$ 1,949,739	\$ 4,297,137
Investment Return				
Interest and dividends	39,432	—	—	39,432
Net realized and unrealized losses	(47,642)	—	—	(47,642)
Total Investment Return	(8,210)	—	—	(8,210)
Contributions	—	—	109,165	109,165
Appropriation of endowment assets for expenditure	—	—	(55,486)	(55,486)
Endowment Assets - June 30, 2016	2,247,030	92,158	2,003,418	4,342,606
Investment Return				
Interest and dividends	31,514	23,637	—	55,151
Net realized and unrealized gains	251,128	188,360	—	439,488
Total Investment Return	282,642	211,997	—	494,639
Contributions	91,976	—	126,410	218,386
Clarification of donor intent	—	—	1,702,948	1,702,948
Appropriation of endowment assets for expenditure	(40,185)	(203,811)	(15,000)	(258,996)
Endowment Assets - June 30, 2017	\$ 2,581,463	\$ 100,344	\$ 3,817,776	\$ 6,499,583

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% to 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% and 5% as the spending limit for the years ended June 30, 2017 and 2016, respectively. 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 the U.S. Department of Housing and Urban Development.

EASTER SEALS MIDWEST

Notes To Financial Statements (Continued)

The Organization's Board has designated net assets of \$2,581,463 and \$2,247,030 at June 30, 2017 and 2016, 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.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets are subject to the following restrictions:

	<u>2017</u>	<u>2016</u>
Learning center (Hess)	\$ 163,982	\$ 163,982
Autism support	—	51,372
Loan fund - Edith Wolff	37,266	37,266
Timing restrictions, including nonendowment pledge receivable	149,987	202,746
Innovation	—	1,857,548
Individual support - Autism	—	6,574
Charitable remainder trust	2,529	2,529
Statewide autism fund	—	81,977
Property and equipment	71,202	71,202
Employment	—	4,160
Employment - Wolff endowment earnings	100,344	92,158
	<u>\$ 525,310</u>	<u>\$ 2,571,514</u>

Net assets were released from restrictions as follows:

	<u>2017</u>	<u>2016</u>
Program restrictions	\$ 382,389	\$ 288,889
Timing restrictions	292,667	62,350
	<u>\$ 675,056</u>	<u>\$ 351,239</u>

Additionally, during 2017, a donor changed their restrictions on prior year gifts from temporarily restricted for Innovation to permanently restricted. The change in donor designation of \$1,702,948 is reflected in the statement of activities to include these gifts in permanently restricted net assets and the accumulated earnings on these gifts in unrestricted net assets at June 30, 2017.

EASTER SEALS MIDWEST

Notes To Financial Statements (Continued)

9. Lease Commitments

The Organization leases office space under noncancellable operating leases. The Organization also leases various office equipment and vehicles. All of these are noncancellable operating leases that have various expiration dates through December 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, 2017 and 2016 was \$1,547,163 and \$1,232,830, respectively.

Future minimum lease payments are as follows at June 30, 2017:

<u>Year</u>	<u>Amount</u>
2018	\$ 1,439,628
2019	922,961
2020	501,450
2021	385,620
2022	257,216
	<u>\$ 3,506,875</u>

10. Concentrations

Approximately 84% and 81% of the Organization's total operating revenues were received from the Missouri Department of Mental Health for the years ended June 30, 2017 and 2016, 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>2017</u>	<u>2016</u>
Missouri Department of Mental Health	\$ 51,179,352	\$ 41,942,960
St. Louis County - Productive Living Board	2,783,274	3,072,126
St. Louis Office of DDRB	721,133	735,188
St. Louis Office of VR	968,630	603,549

EASTER SEALS MIDWEST

Notes To Financial Statements (Continued)

11. Grant Contingencies

The Organization has received grants from the St. Louis Office of Developmental Disability Resources (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. The Organization disposed of the assets on June 30, 2016 and \$27,835 was paid to DDR. The Organization did not dispose of applicable assets in 2017 and was not required to pay anything to DDR in 2017.

At June 30, 2016, contingent reimbursements repaid were as follows:

<u>Property</u>	<u>Date Contingency Begins</u>	<u>Date Contingency Ends</u>	<u>Original Amount</u>	<u>Contingent Liability Paid</u>
Program equipment	July 2011	July 19, 2016	\$ 8,535	\$ 1,707
Kitchen equipment/renovations	July 2011	July 19, 2021	14,887	8,932
Retaining wall at Weber location	May 2014	No End Date	17,196	17,196

12. Employee Deferral Compensation Plan

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 \$162,105 and \$162,404 for the years ended June 30, 2017 and 2016, respectively.

13. Self-Funded Insurance

The Organization has a self-funded health insurance plan. The Organization utilizes an escrow account to pay approved medical claims that must maintain a balance of \$89,000. Daily balance notices are received via email and transfers to the escrow account are made weekly to reimburse the escrow account for claims paid during the week to get the account back to its required balance. The Organization maintains a stop-loss insurance policy, but it was not utilized during either of the years ended June 30, 2017 or 2016. Estimated insurance costs payable as of June 30, 2017 and 2016 were \$815,440 and \$286,733, respectively.

14. Expansion Capacity Revenue

In January 2017, the Organization entered into an agreement with Progressive Community Services (Progressive) enabling the Organization to provide support services to residents in Buchanan County, Missouri. Progressive agreed to provide funding in the form of a forgivable loan to the Organization of \$681,115 for start-up costs and working capital needs. In the event the Organization ceases these services in Buchanan County prior to January 2, 2022, the principal of the forgivable loan must be repaid. The Organization plans to continue its services to residents of Buchanan County, Missouri through this period and beyond, therefore the proceeds of the forgivable loan are recorded in the statement of activities as expansion capacity revenue.

In addition, St. Louis County – Productive Living Board provided a grant of \$50,000 in 2017 to the Organization in support of capacity building for the Organization.

15. Subsequent Events

Subsequent to year end, the Organization entered into a purchase agreement for land and a building in St. Louis County for \$3,295,620. Terms of the purchase agreement stipulate a period of 120 days for due diligence prior to closing, with the closing date to occur 30 days after the expiration of the due diligence period.

Management evaluates subsequent events through the date the financial statements are available for issue, which is the date of the Independent Auditors' Report.