

**EASTER SEALS OF GREATER HOUSTON, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2014 AND 2013**

## CONTENTS

|  | <u>Page</u> |
|--|-------------|
| Independent Auditor's Report.....  | 2-3         |
| Statements of Financial Position .....   | 4           |
| Statements of Activities.....  | 5           |
| Statements of Functional Expenses.....   | 6           |
| Statements of Cash Flows .....   | 7           |
| Notes to Financial Statements .....  | 8-14        |
| Schedule of Expenditures of Federal and Non-Federal Awards .....   | 15-16       |
| Note to Schedule of Expenditures of Federal and Non-Federal Awards .....   | 17          |
| Single Audit Reports on Expenditures of Federal and Non-Federal Awards   |             |
| Schedule of Findings and Questioned Costs.....   | 18-19       |
| Report on Internal Control Over Financial Reporting and on Compliance and Other<br>Matters Based on an Audit of Financial Statements Performed in Accordance<br>with Government Auditing Standards ..... | 20-21       |
| Independent Auditor's Report on Compliance for Each Major Program and on<br>Internal Control over Compliance Required by OMB Circular A-133 .....  | 22-23       |



## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of Easter Seals of Greater Houston, Inc. (ESGH) (a Texas non-profit corporation), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *State of Texas Single Audit Circular*. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 of Greater Houston, Inc. as of December 31, 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.

**Other Matters**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and non-federal awards for the year ended December 31, 2014, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Texas Single Audit Circular*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2015, on our consideration of ESGH's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ESGH's internal control over financial reporting and compliance.



Houston, Texas  
May 22, 2015

**EASTER SEALS OF GREATER HOUSTON, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2014 AND 2013**

| <b>ASSETS</b>                            | <b>2014</b>                | <b>2013</b>                |
|--|----------------------------|----------------------------|
| <b>ASSETS</b>                            |                            |                            |
| Cash and cash equivalents - unrestricted | \$ 204,326                 | \$ 167,026                 |
| Cash restricted for Caroline School      | <u>436,460</u>             | <u>-</u>                   |
| Total cash and cash equivalents          | 640,786                    | 167,026                    |
| Accounts receivable                      | 924,467                    | 793,984                    |
| Contributions receivable                 | 2,353,300                  | 1,198,781                  |
| Other assets                             | 4,574                      | 1,976                      |
| Property and equipment, net              | <u>24,682</u>              | <u>36,802</u>              |
| <b>TOTAL ASSETS</b>                      | <b><u>\$ 3,947,809</u></b> | <b><u>\$ 2,198,569</u></b> |
| <b>LIABILITIES AND NET ASSETS</b>        |                            |                            |
| <b>LIABILITIES</b>                       |                            |                            |
| Accounts payable and accrued liabilities | \$ 480,898                 | \$ 418,943                 |
| Line of credit                           | -                          | 259,989                    |
| Note payable                             | <u>75,429</u>              | <u>89,493</u>              |
| <b>TOTAL LIABILITIES</b>                 | <b><u>556,327</u></b>      | <b><u>768,425</u></b>      |
| <b>NET ASSETS</b>                        |                            |                            |
| Unrestricted                             | 216,608                    | 25,872                     |
| Temporarily restricted                   | <u>3,174,874</u>           | <u>1,404,272</u>           |
|  | <u>3,391,482</u>           | <u>1,430,144</u>           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <b><u>\$ 3,947,809</u></b> | <b><u>\$ 2,198,569</u></b> |

See accompanying notes.

**EASTER SEALS OF GREATER HOUSTON, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

|   | <u>2014</u>         | <u>2013</u>         |
|---|---------------------|---------------------|
| CHANGE IN UNRESTRICTED NET ASSETS                                 |                     |                     |
| REVENUES AND SUPPORT  |                     |                     |
| Government grants   | \$ 2,876,369        | \$ 2,476,141        |
| Contributions   | 1,632,022           | 746,786             |
| Program service fees/third party reimbursement                    | 6,339,905           | 5,348,329           |
| Special events, net of direct expenses of \$220,438 and \$249,476 | 487,598             | 554,373             |
| Other income  | <u>3,493</u>        | <u>5,318</u>        |
|   | 11,339,387          | 9,130,947           |
| Net Assets Released from Restrictions                             | <u>1,139,111</u>    | <u>1,202,918</u>    |
| Total Revenues and Support  | <u>12,478,498</u>   | <u>10,333,865</u>   |
| EXPENSES  |                     |                     |
| Program Services:   |                     |                     |
| Adult Program   | 49,530              | 51,299              |
| Bridging Apps   | 355,084             | 133,959             |
| Camps and Case Management   | 292,932             | 309,457             |
| Children's Therapy  | 685,067             | 664,264             |
| High School/High Tech   | 184,797             | 178,202             |
| Housing   | 226,809             | 260,819             |
| Infant Program  | 6,475,922           | 5,142,357           |
| Respite Care  | 2,298,523           | 2,247,961           |
| Social Motion Skills  | 274,294             | 277,560             |
| The Caroline School   | 292,134             | 293,462             |
| Toy Tech  | 129,157             | 138,128             |
| Transition  | 140,984             | -                   |
| Veterans  | <u>7,073</u>        | <u>-</u>            |
| Total program services  | 11,412,306          | 9,697,468           |
| Management and general  | 303,967             | 294,234             |
| Fundraising   | <u>571,489</u>      | <u>495,963</u>      |
| Total Expenses  | <u>12,287,762</u>   | <u>10,487,665</u>   |
| CHANGE IN UNRESTRICTED ASSETS                                     | <u>190,736</u>      | <u>(153,800)</u>    |
| CHANGE IN TEMPORARILY RESTRICTED NET ASSETS                       |                     |                     |
| Contributions   | 2,909,713           | 1,420,695           |
| Net Assets Released from Restrictions                             | <u>(1,139,111)</u>  | <u>(1,202,918)</u>  |
| CHANGE IN TEMPORARILY RESTRICTED ASSETS                           | <u>1,770,602</u>    | <u>217,777</u>      |
| CHANGE IN NET ASSETS  | 1,961,338           | 63,977              |
| NET ASSETS, BEGINNING OF YEAR                                     | <u>1,430,144</u>    | <u>1,366,167</u>    |
| NET ASSETS, END OF YEAR   | <u>\$ 3,391,482</u> | <u>\$ 1,430,144</u> |

See accompanying notes.

**EASTER SEALS OF GREATER HOUSTON, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

|                           | <b>2014</b>                 |                                       |                          |                             | <b>2013</b>                 |                                       |                          |                             |
|---------------------------|-----------------------------|---------------------------------------|--------------------------|-----------------------------|-----------------------------|---------------------------------------|--------------------------|-----------------------------|
|                           | <b>Program<br/>Services</b> | <b>Management<br/>and<br/>General</b> | <b>Fund<br/>Raising</b>  | <b>Total</b>                | <b>Program<br/>Services</b> | <b>Management<br/>and<br/>General</b> | <b>Fund<br/>Raising</b>  | <b>Total</b>                |
| Salaries and wages        | \$ 6,652,894                | \$ 205,639                            | \$ 228,437               | \$ 7,086,970                | \$ 5,040,672                | \$ 193,248                            | \$ 194,504               | \$ 5,428,424                |
| Employee benefits         | 426,560                     | 11,522                                | 15,799                   | 453,881                     | 535,414                     | 19,787                                | 23,040                   | 578,241                     |
| Payroll taxes             | 488,498                     | 11,559                                | 16,521                   | 516,578                     | 367,970                     | 11,930                                | 15,318                   | 395,218                     |
| Dues                      | 55,909                      | 3,644                                 | 10,958                   | 70,511                      | 48,301                      | 456                                   | 8,560                    | 57,317                      |
| Professional fees         | 697,891                     | 8,289                                 | 79,047                   | 785,227                     | 683,059                     | 10,524                                | 33,896                   | 727,479                     |
| Supplies                  | 176,778                     | 22,171                                | 13,321                   | 212,270                     | 204,239                     | 13,239                                | 23,202                   | 240,680                     |
| Telephone                 | 72,658                      | 2,045                                 | 3,667                    | 78,370                      | 64,768                      | 2,059                                 | 3,555                    | 70,382                      |
| Postage and shipping      | 20,834                      | 2,191                                 | 6,179                    | 29,204                      | 17,079                      | 701                                   | 9,471                    | 27,251                      |
| Occupancy                 | 358,469                     | 8,000                                 | 11,203                   | 377,672                     | 318,543                     | 6,718                                 | 10,536                   | 335,797                     |
| Insurance                 | 24,770                      | 1,325                                 | 6,083                    | 32,178                      | 26,184                      | 814                                   | 1,152                    | 28,150                      |
| Mileage reimbursement     | 195,956                     | 1,573                                 | 6,939                    | 204,468                     | 185,025                     | 562                                   | 1,314                    | 186,901                     |
| Travel                    | 74,344                      | 12,890                                | 3,444                    | 90,678                      | 50,871                      | 9,586                                 | 4,915                    | 65,372                      |
| Printing                  | 33,041                      | 503                                   | 25,740                   | 59,284                      | 25,720                      | 1,190                                 | 18,907                   | 45,817                      |
| Equipment rental          | 19,801                      | 3,188                                 | 573                      | 23,562                      | 12,491                      | 2,251                                 | 428                      | 15,170                      |
| Assistance to individuals | 1,965,387                   | -                                     | 3,488                    | 1,968,875                   | 1,932,328                   | 1,327                                 | -                        | 1,933,655                   |
| In-kind                   | 115,507                     | -                                     | 121,500                  | 237,007                     | 154,111                     | -                                     | 132,650                  | 286,761                     |
| Interest                  | -                           | 8,458                                 | -                        | 8,458                       | -                           | 18,499                                | -                        | 18,499                      |
| Miscellaneous             | 21,026                      | 833                                   | 18,590                   | 40,449                      | 16,416                      | -                                     | 14,515                   | 30,931                      |
| Depreciation              | 11,983                      | 137                                   | -                        | 12,120                      | 14,277                      | 1,343                                 | -                        | 15,620                      |
| <b>Total Expenses</b>     | <b><u>\$ 11,412,306</u></b> | <b><u>\$ 303,967</u></b>              | <b><u>\$ 571,489</u></b> | <b><u>\$ 12,287,762</u></b> | <b><u>\$ 9,697,468</u></b>  | <b><u>\$ 294,234</u></b>              | <b><u>\$ 495,963</u></b> | <b><u>\$ 10,487,665</u></b> |

See accompanying notes.

**EASTER SEALS OF GREATER HOUSTON, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

|   | <u>2014</u>        | <u>2013</u>       |
|---|--------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                    |                   |
| Change in net assets  | \$ 1,961,338       | \$ 63,977         |
| Adjustments to reconcile change in net assets<br>to net cash provided (used) by operating activities: |                    |                   |
| Contribution of equipment   | -                  | (12,500)          |
| Depreciation  | 12,120             | 15,620            |
| Accounts receivable   | (130,483)          | (31,933)          |
| Contributions receivable  | (1,154,519)        | (139,698)         |
| Other assets  | (2,598)            | -                 |
| Accounts payable and accrued liabilities  | <u>61,955</u>      | <u>76,090</u>     |
| Total adjustments   | <u>(1,213,525)</u> | <u>(92,421)</u>   |
| Net cash provided (used) by operating activities  | <u>747,813</u>     | <u>(28,444)</u>   |
| CASH FLOWS FROM FINANCING ACTIVITIES:   |                    |                   |
| Borrowings on line of credit  | -                  | 65,989            |
| Payments on line of credit  | (259,989)          | (55,000)          |
| Borrowings on note payable  | -                  | 91,962            |
| Payments on note payable  | <u>(14,064)</u>    | <u>(2,469)</u>    |
| Net cash (used) provided by financing activities  | <u>(274,053)</u>   | <u>100,482</u>    |
| NET INCREASE IN CASH AND CASH EQUIVALENTS   | 473,760            | 72,038            |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR  | <u>167,026</u>     | <u>94,988</u>     |
| CASH AND CASH EQUIVALENTS AT END OF YEAR  | <u>\$ 640,786</u>  | <u>\$ 167,026</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:   |                    |                   |
| Cash paid for interest  | <u>\$ 8,458</u>    | <u>\$ 18,499</u>  |

NOTE A      BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Cash and Cash Equivalents - For the purposes of the statement of cash flows, cash and cash equivalents include demand deposits and a money market account. Cash is maintained with financial institutions in the United States. At times, deposits with these financial institutions may exceed the amount of federal deposit insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. In monitoring this credit risk, ESGH periodically evaluates the stability of the financial institutions.

Accounts and Contributions Receivable - Management believes that all receivables are collectible; therefore, no allowance for doubtful accounts has been recorded. If amounts become uncollectible, they will be charged to operations when that determination is made. At December 31, 2014 and 2013, two donors accounted for 87% and 96% of contributions receivable, respectively.

Property and Equipment - Property and equipment are stated at cost or estimated fair market value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities.

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

Contributions - All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the organization reports the support as unrestricted.

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

Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value. Unconditional promises to give that are expected to be collected after one year or more are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included as contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

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

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

Program Service Fees - ESGH recognizes program service fee revenue when the services are rendered.

Functional Expenses - Functional expenses which cannot be directly identified with a specific program are charged to the various programs based on hours worked, square footage, or other reasonable methods for allocating multiple function expenditures.

Income Taxes - ESGH is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, ESGH is subject to taxes on unrelated business income. No unrelated business income tax was paid in 2014 and 2013.

ESGH believes that all significant tax positions utilized by ESGH will more likely than not be sustained upon examination. As of December 31, 2014, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2011 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as general and administrative expense in the statement of activities.

Subsequent Events - ESGH has evaluated subsequent events through May 22, 2015, the date the financial statements were available to be issued. ESGH has net additional borrowings on the line of credit of approximately \$62,000. No other subsequent events occurred which require adjustment or disclosure to the financial statements at December 31, 2014.

**EASTER SEALS OF GREATER HOUSTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

NOTE B      CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2014 and 2013 are receivable in the following periods:

|                                 | 2014         | 2013         |
|---------------------------------|--------------|--------------|
| Receivable in one year or less  | \$ 1,548,046 | \$ 1,198,781 |
| Receivable in one to five years | 805,254      | -            |
| Total contributions receivable  | \$ 2,353,300 | \$ 1,198,781 |

NOTE C      PROPERTY AND EQUIPMENT

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

|                               | Lives      | 2014       | 2013       |
|-------------------------------|------------|------------|------------|
| Furniture and equipment       | 3 - 7 yrs. | \$ 203,504 | \$ 203,504 |
| Leasehold improvements        | 4 - 5 yrs. | 55,546     | 55,546     |
|                               |            | 259,050    | 259,050    |
| Less accumulated depreciation |            | (234,368)  | (222,248)  |
|                               |            | \$ 24,682  | \$ 36,802  |

NOTE D      LINE OF CREDIT

ESGH has available a \$300,000 line of credit from a bank which bears interest at prime rate plus .5% subject to a floor of 5% (5.0% at December 31, 2014), which was renewed on August 1, 2014 due to mature on August 1, 2015. Borrowings are limited to 70% of accounts receivable less than sixty days old and are secured by assets of ESGH.

**EASTER SEALS OF GREATER HOUSTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

NOTE E      LONG TERM DEBT

On October 9, 2013, ESGH entered into a promissory note agreement with a bank for \$91,962. The note bears interest at 3.5% and is payable in monthly installments of \$1,418. The note is guaranteed by the United Way of Greater Houston (See Note L).

Future annual principal payments at December 31, 2014 are as follows:

|       |    |               |
|-------|----|---------------|
| 2015  | \$ | 14,603        |
| 2016  |    | 15,123        |
| 2017  |    | 15,660        |
| 2018  |    | 16,217        |
| 2019  |    | <u>13,826</u> |
| Total | \$ | <u>75,429</u> |

NOTE F      TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

|   | 2014                | 2013                |
|---|---------------------|---------------------|
| Adult Program                           | \$ 36,161           | \$ 15,161           |
| Bridging Apps                           | 41,000              | -                   |
| Camps and Case Management               | 121,929             | 123,545             |
| Caroline School                         | 3,500               | 60,000              |
| Caroline School Operating Endowment     | 486,460             | 250,000             |
| Children's Therapy                      | 84,382              | 82,382              |
| Fund Development Program                | 3,500               | 5,000               |
| High School/High Tech                   | 51,170              | 31,859              |
| Housing                                 | 26,000              | 41,000              |
| Infant Program                          | 586,818             | 557,318             |
| Respite Care                            | 128,736             | 133,839             |
| Social Motion Skills                    | 66,603              | -                   |
| Special Events to be held in the future | 32,072              | 64,000              |
| Toy Tech                                | 42,000              | 21,000              |
| Transition                              | 1,421,116           | 19,168              |
| Veterans                                | <u>43,427</u>       | <u>-</u>            |
|   | <u>\$ 3,174,874</u> | <u>\$ 1,404,272</u> |

**EASTER SEALS OF GREATER HOUSTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

NOTE G            RELEASE OF DONOR RESTRICTIONS

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

|                           | 2014                | 2013                |
|---------------------------|---------------------|---------------------|
| Camps and Case Management | \$ 123,545          | \$ 115,162          |
| Caroline School           | 60,000              | 71,000              |
| Children's Therapy        | 82,382              | 77,882              |
| Fund development program  | 5,000               | 15,500              |
| High School/High Tech     | 31,859              | 34,031              |
| Housing                   | 41,000              | 82,000              |
| Infant Program            | 557,318             | 557,318             |
| Respite Care              | 133,839             | 156,941             |
| Social Motion Skills      | -                   | 24,584              |
| Special Events            | 64,000              | -                   |
| Toy Tech                  | 21,000              | 68,500              |
| Transition                | 19,168              | -                   |
|                           | <u>\$ 1,139,111</u> | <u>\$ 1,202,918</u> |

NOTE H            OPERATING LEASES AND COMMITMENTS

ESGH leases office space and equipment under operating leases and utilizes proprietary software under a long-term contract. Future payments by fiscal year are as follows:

|      |                     |
|------|---------------------|
| 2015 | \$ 381,652          |
| 2016 | 363,943             |
| 2017 | 259,336             |
| 2018 | 12,491              |
|      | <u>\$ 1,017,422</u> |

Total expense under these contracts amounted to \$431,720 and \$377,667 for the years ended December 31, 2014 and 2013, respectively.

**EASTER SEALS OF GREATER HOUSTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

NOTE I CAROLINE SCHOOL OPERATING ENDOWMENT

ESGH established an operating endowment for the Caroline School (the School). Earnings from the operating endowment may be used for ordinary operations of the School. The principal of the operating endowment is intended to be used for special projects or unexpected expenses of the School and only after approval by a majority of the Board of Directors.

Based on the interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), all net assets of the operating endowment that are not permanently restricted by donors are deemed to be temporarily restricted until appropriated for expenditure. As of December 31, 2014 and 2013, no permanently restricted contributions have been received.

Changes in the operating endowment net assets are as follows:

|   |    |                 |
|---|----|-----------------|
| Endowment net assets, December 31, 2012 | \$ | -               |
| Contributions                           |    | <u>250,000</u>  |
| Endowment net assets, December 31, 2013 |    | 250,000         |
| Contributions                           |    | 284,460         |
| Appropriations                          |    | <u>(48,000)</u> |
| Endowment net assets, December 31, 2014 | \$ | <u>486,460</u>  |

Assets of the operating endowment consist of the following at December 31:

|                          | <u>2014</u>       | <u>2013</u>       |
|--------------------------|-------------------|-------------------|
| Cash                     | \$ 436,460        | \$ -              |
| Contributions receivable | <u>50,000</u>     | <u>250,000</u>    |
|                          | <u>\$ 486,460</u> | <u>\$ 250,000</u> |

NOTE J AFFILIATION WITH EASTER SEALS, INC.

ESGH is voluntarily affiliated with Easter Seals, Inc. ESGH paid to Easter Seals Inc. dues amounting to \$46,260 and \$45,000 during 2014 and 2013, respectively.

NOTE K           INSURANCE

ESGH carries commercial, professional and automobile liability insurance for the period October 2014 to October 2015. Coverage limits range from \$1,000,000 maximum for each occurrence up to \$3,000,000 in the aggregate. In addition, ESGH carries workman's compensation and employer's liability insurance effective for the period of October 2014 to October 2015 with a \$1,000,000 policy limit.

NOTE L           BENEFIT PLANS

ESGH has established a defined contribution plan under Section 403(b) of the Internal Revenue Code of 1986 ("403(b) plan") covering substantially all of its employees who have completed one year of service. Employees of ESGH can annually elect to contribute to the 403(b) plan the maximum amount allowed by the Internal Revenue Code. ESGH's matching policy is to contribute at a rate equal to 100% of the amount the participating employee has contributed, not to exceed 3% of the employee's annual salary. For the years ended December 31, 2014 and 2013, ESGH contributed \$124,397 and \$110,931, respectively to the 403(b) plan.

ESGH previously participated in a multi-employer cash balance defined benefit pension plan through the United Way of Greater Houston (United Way) (the Pension Plan) which was administered by a pension plan committee.

During 2013, the Pension Plan was officially terminated. ESGH's liability to the plan of \$156,064 was paid and expensed during 2013. An employer participating in a multi-employer plan recognizes as net pension cost the required contribution for the period. Pension Plan contributions expensed by ESGH for the years ended December 31, 2014 and 2013 amounted to \$0 and \$166,574, respectively.

NOTE M           CONTINGENCY

Approximately 90% of the government grants are received either directly from or are passed through the Texas Department of Assistive and Rehabilitative Services Division of Early Childhood Intervention Services. Amounts received from government and other grants require the fulfillment of certain conditions as set forth in the grant contracts. ESGH intends to fulfill the conditions of all grants, recognizing that failure to fulfill the conditions could result in the return of the funds to grantors. Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, could become a liability of ESGH. In management's opinion, disallowed claims, if any, would not have a material adverse effect on ESGH's financial position or results of operations.

**EASTER SEALS OF GREATER HOUSTON, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

| <u>Federal Grantor/Pass-through Grantor/<br/>Program or Cluster Title and Non-Federal Grantor</u>                            | <u>Federal<br/>CFDA<br/>Number</u> | <u>Identifying<br/>Number</u> | <u>Federal<br/>and<br/>Non-Federal<br/>Expenditures</u> |
|--|------------------------------------|-------------------------------|---|
| Federal Awards:  |                                    |                               |   |
| U.S. Department of Education; Office of Special Education<br>and Rehabilitative Services                                     |                                    |                               |   |
| Pass-through Texas Department of Assistive and Rehabilitative Services<br>Division for Early Childhood Intervention Services |                                    |                               |   |
| Special Education-Grants to States   | 84.027                             | 5382001552-01                 | \$ 183,240  |
| Special Education-Grants for Infants and Families  | 84.181                             | 5382001552-01                 | <u>1,257,832</u>  |
| Total U.S. Department of Education   |                                    |                               | <u>1,441,072</u>  |
| U.S. Department of Health and Human Services; Administration<br>for Children and Families                                    |                                    |                               |   |
| Pass-through Texas Department of Assistive and Rehabilitative Services<br>Division for Early Childhood Intervention Services |                                    |                               |   |
| Temporary Assistance for Needy Families  | 93.558                             | 5382001552-01                 | <u>509,072</u>  |
| Total U.S. Department of Health and Human Services   |                                    |                               | <u>509,072</u>  |
| U.S. Department of Housing and Urban Development; Office of<br>Housing-Federal Housing Commissioner                          |                                    |                               |   |
| Housing Counseling Assistance Program  | 14.169                             | HC130821044                   | 15,400  |
| U.S. Department of Housing and Urban Development; Office of<br>Community Planning and Development                            |                                    |                               |   |
| Pass-through Montgomery County, Texas<br>Home Investment Partnerships Program  | 14.239                             | M-10-UC-48-0235               | <u>65,515</u>   |
| Total U.S. Department of Housing and Urban Development   |                                    |                               | <u>80,915</u>   |

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

**EASTER SEALS OF GREATER HOUSTON, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

| <u>Federal Grantor/Pass-through Grantor/<br/>Program or Cluster Title and Non-Federal Grantor</u>                       | <u>Federal<br/>CFDA<br/>Number</u> | <u>Identifying<br/>Number</u> | <u>Federal<br/>and<br/>Non-Federal<br/>Expenditures</u> |
|---|------------------------------------|-------------------------------|---|
| Continued   |                                    |                               |   |
| U.S. Department of Justice; Office of Juvenile Justice and<br>Delinquency Prevention                                    |                                    |                               |   |
| Passed through the Institute for Educational Leadership<br>Juvenile Mentoring Program                                   | 16.726                             | 2012JUFX0014                  | <u>54,881</u>   |
| Total U.S. Department of Justice  |                                    |                               | <u>54,881</u>   |
| U.S. Department of Homeland Security  |                                    |                               |   |
| Passed through the Emergency Food Shelter<br>National Board Program<br>Passed through the United Way of Greater Houston | 97.024                             | LRO#: 093                     | <u>10,000</u>   |
| Total U.S. Department of Homeland Security  |                                    |                               | <u>10,000</u>   |
| Total expenditures of federal awards  |                                    |                               | <u>\$ 2,095,940</u>                                     |
| Non-Federal Awards:   |                                    |                               |   |
| Texas Department of Assistive and Rehabilitative Services<br>Division for Early Childhood Intervention Services         |                                    |                               |   |
| Special Education-Grants to States  | N/A                                | 5382001552-01                 | \$ 770,943  |
| Special Education-Grants to States  | N/A                                | 5382001552-02                 | <u>13,188</u>   |
| Total expenditures of non-federal awards  |                                    |                               | <u>\$ 784,131</u>                                       |

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

**EASTER SEALS OF GREATER HOUSTON, INC.**  
**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS**  
**DECEMBER 31, 2014**

---

NOTE A           BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and non-federal awards includes the federal and non-federal grant activity of Easter Seals of Greater Houston, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State of Texas Single Audit Circular. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**SINGLE AUDIT REPORTS ON EXPENDITURES OF  
FEDERAL AWARDS PROGRAMS**

**EASTER SEALS OF GREATER HOUSTON, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

---

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unmodified opinion on the financial statements of Easter Seals of Greater Houston, Inc.
2. A material weakness in internal controls over financial reporting was reported.
3. No instances of noncompliance material to the financial statements of Easter Seals of Greater Houston, Inc. were disclosed during the audit.
4. No material weaknesses or significant deficiencies over the internal controls over major programs were reported.
5. The auditor's report issued on compliance for the major federal and non-federal award programs for Easter Seals of Greater Houston, Inc. expresses an unmodified opinion on all major programs.
6. The auditor disclosed no findings relating to major programs that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include:

|  | CFDA<br>Number |
|--|----------------|
| Federal Awards:  |                |
| Department of Education; Office of Special Education and Rehabilitative Services |                |
| Pass-through Texas Department of Assistive and Rehabilitative Services           |                |
| Division for Early Childhood Intervention Services                               |                |
| Special Education-Grants for Infants and Families                                | 84.181         |
| Non-Federal Awards:  |                |
| Texas Department of Assistive and Rehabilitative Services                        |                |
| Division for Early Childhood Intervention Services                               |                |
| Special Education-Grants to States   | N/A            |
8. The threshold used for distinguishing between Type A and B programs was \$300,000 for both federal and non-federal awards.
9. Easter Seals of Greater Houston, Inc. does not qualify as a low-risk auditee.

**EASTER SEALS OF GREATER HOUSTON, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

---

**FINDINGS - FINANCIAL STATEMENT AUDIT**

Finding 2014 - 01

Criteria: Generally accepted accounting principles require contributions to be recorded as revenue in the year grant notifications are received from donors.

Condition: We noted that for two multi-year contributions awarded in 2014, ESGH recorded only the cash received rather than the entire amount of the contribution noted in the correspondence received

Cause: ESGH did not have a policy in place to reconcile donor communications received by management to multi-year contributions per the accounting records.

Effect: Contributions receivable and contribution revenues were understated.

Recommendation: ESGH should develop procedures to identify and record all contributions when the notification of the donation is received.

View of Responsible Officials and Planned Corrective Actions: ESGH has, in the past, received very few multi-year grants. Management discussed the multi-year grant with auditors in the fall of 2014. The required adjustments were inadvertently omitted from year-end adjustments. The CEO and CFO will review all grants on a monthly basis to verify proper concurrent recording in the accounting records.

**MAJOR FEDERAL AND NON-FEDERAL AWARD PROGRAMS AUDIT**

None

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

2013-1 Reporting

Condition: This finding noted that for the year ended December 31, 2012, ESGH did not submit the single audit reporting package to the federal government timely. The auditor's reports were released on May 16, 2013 and the single audit reporting package was submitted on July 31, 2013.

Recommendation: The auditor recommended that ESGH take actions to comply with the reporting requirements relating to federal grants.

Current status: The recommendation was adopted in May 2014. No similar findings were noted in the 2014 audit.



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

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

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *State of Texas Single Audit Circular*, the financial statements of Easter Seals of Greater Houston, Inc. (ESGH, a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 22, 2015.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we did identify a deficiency in internal control that we consider to be a material weakness as described in the accompanying schedule of findings and questioned costs as item 2014-01.

**Compliance and Other Matters**

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

## **Easter Seals of Greater Houston, Inc.'s Response to Findings**

Easter Seals of Greater Houston, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Easter Seals of Greater Houston, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Hogan & Pearson Company, P.C.*

Houston, Texas  
May 22, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

**Report on Compliance for Each Major Program**

We have audited Easter Seals of Greater Houston, Inc.'s (ESGH) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of ESGH's major federal and non-federal programs for the year ended December 31, 2014. ESGH's major federal and non-federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and non-federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of ESGH's major federal and non-federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Texas Single Audit Circular*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ESGH's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**Opinion on Each Major Federal and Non-Federal Programs**

In our opinion, ESGH complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and non-federal programs for the year ended December 31, 2014.

## Report on Internal Control Over Compliance

Management of ESGH is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ESGH's internal control over compliance with the types of requirements that could have a direct and material effect on each major program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *State of Texas Single Audit Circular*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ESGH's internal control over compliance.

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

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

### Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the *State of Texas Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.



Houston, Texas  
May 22, 2015