

EASTER SEALS OF GREATER HOUSTON, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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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, 2015 and 2014, 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

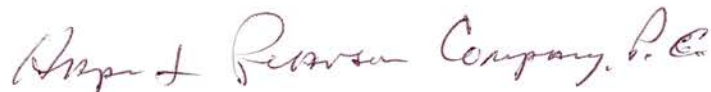
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Easter Seals of Greater Houston, Inc. as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting 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, 2015, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 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 17, 2016, 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 17, 2016

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

ASSETS	2015	2014
ASSETS		
Cash and cash equivalents - unrestricted	\$ 102,971	\$ 204,326
Cash restricted for Caroline School	<u>638,833</u>	<u>436,460</u>
Total cash and cash equivalents	741,804	640,786
Accounts receivable	1,446,762	924,467
Contributions receivable	2,128,477	2,353,300
Other assets	7,600	4,574
Property and equipment, net	<u>41,115</u>	<u>24,682</u>
TOTAL ASSETS	<u>\$ 4,365,758</u>	<u>\$ 3,947,809</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 612,188	\$ 480,898
Line of credit	302,866	-
Note payable	<u>60,855</u>	<u>75,429</u>
TOTAL LIABILITIES	<u>975,909</u>	<u>556,327</u>
NET ASSETS		
Unrestricted	308,912	216,608
Temporarily restricted	<u>3,080,937</u>	<u>3,174,874</u>
	<u>3,389,849</u>	<u>3,391,482</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,365,758</u>	<u>\$ 3,947,809</u>

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CHANGE IN UNRESTRICTED NET ASSETS		
REVENUES AND SUPPORT		
Government grants	\$ 4,846,145	\$ 2,876,369
Contributions	690,030	1,523,486
Program service fees/third party reimbursement	7,374,875	6,236,360
Special events, net of direct expenses of \$211,236 and \$202,517	564,928	437,536
Other income	3,874	3,493
	13,479,852	11,077,244
Net Assets Released from Restrictions	1,712,014	1,139,111
Total Revenues and Support	15,191,866	12,216,355
EXPENSES		
Program Services:		
Adult Program	58,896	49,530
Bridging Apps	414,007	355,084
Camps and Case Management	340,939	292,932
Children's Therapy	597,745	685,067
High School/High Tech	188,744	184,797
Housing	235,533	226,809
Infant Program	9,928,797	6,475,922
Respite Care	1,704,489	2,298,523
The Caroline School	299,562	292,134
Toy Tech	47,695	129,157
Transition	295,320	140,984
Veterans	43,917	7,073
Total program services	14,155,644	11,138,012
Management and general	291,869	303,967
Fundraising	476,845	571,489
Flood expenses	62,576	-
Total Expenses	14,986,934	12,013,468
CHANGE IN UNRESTRICTED ASSETS	204,932	202,887
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,618,077	2,843,110
Net Assets Released from Restrictions	(1,712,014)	(1,139,111)
CHANGE IN TEMPORARILY RESTRICTED ASSETS	(93,937)	1,703,999
CHANGE IN NET ASSETS BEFORE DISCONTINUED OPERATIONS	110,995	1,906,886
Social Motion Skills	(112,628)	54,452
CHANGE IN NET ASSETS	(1,633)	1,961,338
NET ASSETS, BEGINNING OF YEAR	3,391,482	1,430,144
NET ASSETS, END OF YEAR	\$ 3,389,849	\$ 3,391,482

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015			2014			
	Program Services	Management and General	Fund Raising	Program Services	Management and General	Fund Raising	Total
Salaries and wages	\$ 9,530,973	\$ 198,172	\$ 208,001	\$ 6,546,448	\$ 205,639	\$ 228,437	\$ 6,980,524
Employee benefits	423,984	4,062	12,267	417,944	11,522	15,799	445,265
Payroll taxes	689,814	8,316	8,405	480,373	11,559	16,521	508,453
Dues	57,283	4,456	4,092	54,486	3,644	10,958	69,088
Professional fees	695,793	5,959	24,883	591,855	8,289	79,047	679,191
Supplies	218,233	20,400	33,811	169,728	22,171	13,321	205,220
Telephone	115,055	2,536	3,017	69,099	2,045	3,667	74,811
Postage and shipping	22,616	639	6,422	20,226	2,191	6,179	28,596
Occupancy	378,325	6,669	9,629	341,436	8,000	11,203	360,639
Insurance	36,755	1,021	4,527	24,243	1,325	6,083	31,651
Mileage reimbursement	325,383	1,110	2,220	190,476	1,573	6,939	198,988
Travel	57,476	12,147	2,884	72,757	12,890	3,444	89,091
Printing	10,580	-	28,785	31,349	503	25,740	57,592
Equipment rental	29,915	7,583	-	19,653	3,188	573	23,414
Assistance to individuals	1,368,237	-	2,038	1,963,764	-	3,488	1,967,252
In-kind	145,396	-	100,000	115,507	-	121,500	237,007
Interest	-	17,175	-	-	8,458	-	8,458
Miscellaneous	36,874	1,624	25,864	16,685	833	18,590	36,108
Depreciation	12,952	-	-	11,983	137	-	12,120
Total Expenses	\$ 14,155,644	\$ 291,869	\$ 476,845	\$ 11,138,012	\$ 303,967	\$ 571,489	\$ 12,013,468

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,633)	\$ 1,961,338
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	12,952	12,120
Accounts receivable	(522,295)	(130,483)
Contributions receivable	224,823	(1,154,519)
Other assets	(3,026)	(2,598)
Accounts payable and accrued liabilities	131,290	61,955
Total adjustments	(156,256)	(1,213,525)
Net cash (used) provided by operating activities	(157,889)	747,813
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(29,385)	-
Net cash used by investing activities	(29,385)	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	2,534,000	-
Payments on line of credit	(2,231,134)	(259,989)
Payments on note payable	(14,574)	(14,064)
Net cash provided (used) by financing activities	288,292	(274,053)
NET INCREASE IN CASH AND CASH EQUIVALENTS	101,018	473,760
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	640,786	167,026
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 741,804	\$ 640,786
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 17,175	\$ 8,458

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, 2015 and 2014, two donors accounted for 76% and 87% 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 2015 and 2014.

ESGH believes that all significant tax positions utilized by ESGH will more likely than not be sustained upon examination. As of December 31, 2015, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2012 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 17, 2016, the date the financial statements were available to be issued. No subsequent events occurred which require adjustment or disclosure to the financial statements at December 31, 2015.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE B CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2015 and 2014 are receivable in the following periods:

	2015	2014
Receivable in one year or less	\$ 1,725,546	\$ 1,548,046
Receivable in one to five years	402,931	805,254
Total contributions receivable	\$ 2,128,477	\$ 2,353,300

NOTE C PROPERTY AND EQUIPMENT

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

	Lives	2015	2014
Furniture and equipment	3 - 7 yrs.	\$ 232,889	\$ 203,504
Leasehold improvements	4 - 5 yrs.	55,546	55,546
		288,435	259,050
Less accumulated depreciation		(247,320)	(234,368)
		\$ 41,115	\$ 24,682

NOTE D LINE OF CREDIT

ESGH has a 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, 2015), which was renewed for \$500,000 on June 1, 2015 due to mature on June 1, 2016. Borrowings are limited to 70% of accounts receivable less than sixty days old and are secured by essentially all assets of ESGH.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 (United Way) in connection with liabilities incurred by ESGH arising from the 2013 termination of a multi-employer pension plan previously offered through the United Way.

Future annual principal payments at December 31, 2015 are as follows:

2016	\$	15,123
2017		15,660
2018		16,217
2019		<u>13,855</u>
Total	\$	<u>60,855</u>

NOTE F TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Adult Program	\$ 5,000	\$ 36,161
Bridging Apps	13,000	41,000
Camps and Case Management	126,205	121,929
Caroline School	-	3,500
Caroline School Operating Endowment	888,833	486,460
Children's Therapy	66,127	84,382
Fund Development Program	5,000	3,500
High School/High Tech	57,403	51,170
Housing	46,000	26,000
Infant Program	552,338	586,818
Respite Care	124,195	128,736
Social Motion Skills	-	66,603
Special Events to be held in the future	15,740	32,072
Toy Tech	31,000	42,000
Transition	1,115,596	1,421,116
Veterans	<u>34,500</u>	<u>43,427</u>
	<u>\$ 3,080,937</u>	<u>\$ 3,174,874</u>

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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:

	<u>2015</u>	<u>2014</u>
Adult program	\$ 36,161	\$ -
Bridging Apps	51,000	-
Camps and Case Management	158,801	123,545
Caroline School	3,500	60,000
Children's Therapy	86,882	82,382
Caroline School Operating Endowment	8,000	-
Fund development program	3,500	5,000
High School/High Tech	59,606	31,859
Housing	72,000	41,000
Infant Program	599,318	557,318
Respite Care	143,624	133,839
Social Motion Skills	66,603	-
Special Events	32,072	64,000
Toy Tech	42,000	21,000
Transition	305,520	19,168
Veterans	<u>43,427</u>	<u>-</u>
	<u>\$ 1,712,014</u>	<u>\$ 1,139,111</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:

2016	\$ 422,660
2017	339,625
2018	97,842
2019	<u>42,320</u>
	<u>\$ 902,447</u>

Total expense under these contracts amounted to \$498,445 and \$431,720 for the years ended December 31, 2015 and 2014, respectively.

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, 2015 and 2014, no permanently restricted contributions have been received.

Changes in the operating endowment net assets are as follows:

Endowment net assets, December 31, 2013	\$	250,000
Contributions		284,460
Appropriations		<u>(48,000)</u>
Endowment net assets, December 31, 2014		486,460
Contributions		410,373
Appropriations		<u>(8,000)</u>
Endowment net assets, December 31, 2015	\$	<u>888,833</u>

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

	2015	2014
Cash	638,833	\$ 436,460
Contributions receivable	<u>250,000</u>	<u>50,000</u>
	<u>\$ 888,833</u>	<u>\$ 486,460</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 \$52,540 and \$46,260 during 2015 and 2014, respectively.

NOTE K INSURANCE

ESGH carries commercial, professional and automobile liability insurance for the period October 2015 to October 2016. 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 2015 to October 2016 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, 2015 and 2014, ESGH contributed \$100,908 and \$124,397, respectively to the 403(b) plan.

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.

NOTE N CAROLINE SCHOOL AND CHILDREN'S THERAPY FLOOD

On May 26, 2015 the first floor space rented by ESGH at 4500 Bissonnet was flooded. Significant damage was sustained to the building and to Easter Seals' property. The landlord, 4500 Bissonnet Associates, LP and 4500 Bissonnet Associates GP, LLC, refused to make repairs to the building so that ESGH could resume use of the leased space. After repeated requests that the landlord make repairs to its building and the landlord's refusal to make the space tenable, ESGH made the repairs so that it could resume its services and reduce the financial damage it was sustaining through a loss of revenue. ESGH has sued the landlord for costs incurred in making the repairs, for revenue lost due to the landlord's breach of contract and for attorney's fees. After the suit was filed, the landlord offered to pay for some of the costs incurred by ESGH. Direct flood related expenses for repairs to the building and replacement of damaged equipment of \$62,576 are reflected in the financial statements. The financial statements do not include lost revenue and other damages incurred due to the landlord's refusal to make repairs.

NOTE O DISCONTINUED OPERATIONS

ESGH discontinued the Social Motions Skills program effective December 31, 2015. In 2011, Social Motion Skills was a small stand-alone non-profit organization. Its programming was assumed by ESGH January 1, 2012 in order to expand program services and provide administrative and fundraising support. Social Motion Skills, Inc. once again became a stand alone non-profit organization and is providing services as a separate entity. In aggregate, discontinued operations included revenue of \$246,444 and \$328,746 in 2015 and 2014 respectively.

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

EASTER SEALS OF GREATER HOUSTON, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Federal Grantor/Pass-through Grantor/ Program or Cluster Title and Non-Federal Grantor	Federal CFDA Number	Identifying Number	Federal and Non-Federal Expenditures
Federal Awards:			
U.S. 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 to States	84.027	5382001552-01	\$ 277,200
Special Education-Grants for Infants and Families	84.181	5382001552-01	<u>3,009,377</u>
Total U.S. Department of Education			<u>3,286,577</u>
U.S. Department of Health and Human Services; Administration for Children and Families			
Pass-through Texas Department of Assistive and Rehabilitative Services Division for Early Childhood Intervention Services			
Temporary Assistance for Needy Families	93.558	5382001552-01	<u>788,959</u>
Total U.S. Department of Health and Human Services			<u>788,959</u>
U.S. Department of Housing and Urban Development; Office of Housing-Federal Housing Commissioner			
Housing Counseling Assistance Program	14.169	HC130821044	16,071
U.S. Department of Housing and Urban Development; Office of Community Planning and Development			
Pass-through Montgomery County, Texas Home Investment Partnerships Program	14.239	M-10-UC-48-0235	<u>58,000</u>
Total U.S. Department of Housing and Urban Development			<u>74,071</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, 2015**

Federal Grantor/Pass-through Grantor/ Program or Cluster Title and Non-Federal Grantor	Federal CFDA Number	Identifying Number	Federal and Non-Federal Expenditures
Continued			
U.S. Department of Justice; Office of Juvenile Justice and Delinquency Prevention			
Passed through the Institute for Educational Leadership Juvenile Mentoring Program	16.726	2014JUFX0015	<u>40,000</u>
Total U.S. Department of Justice			<u>40,000</u>
U.S. Department of Homeland Security			
Passed through the Emergency Food Shelter National Board Program			
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>\$ 4,199,607</u>
Non-Federal Awards:			
Texas Department of Assistive and Rehabilitative Services Division for Early Childhood Intervention Services			
Special Education-Grants to States	N/A	5382001552-01	\$ 841,208
Special Education-Grants to States	N/A	5382001552-02	<u>5,330</u>
Total expenditures of non-federal awards			<u>\$ 846,538</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, 2015

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 Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, 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.

**EASTER SEALS OF GREATER HOUSTON, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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. No 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 each major federal and non-federal award program for Easter Seals of Greater Houston, Inc. expresses an unmodified opinion.
6. The auditor disclosed no findings relating to major programs that are required to be reported in accordance with 2CFR Section 200.516(a).
7. The programs tested as major programs include:

	CFDA 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
Department of Health and Human Services; Administration for Children and Families	
Pass-through Texas Department of Assistive and Rehabilitative Services	
Temporary Assistance for Needy Families	
	93.558
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 \$750,000 for both federal and non-federal awards.
9. Easter Seals of Greater Houston, Inc. does not qualify as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

None

FEDERAL AND NON-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2014-01 Reporting

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 from the donor.

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

Current status: The recommendation was adopted in May 2015. No similar findings were noted in the 2015 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, 2015, 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 17, 2016.

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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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.

Harper + Peterson Company, P.C.

Houston, Texas
May 17, 2016



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

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 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, 2015. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal and non-federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State of Texas Single Audit Circular*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2015.

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 the Uniform Guidance 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 the Uniform Guidance and the *State of Texas Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in red ink that reads "Anup + PwC". The signature is written in a cursive style.

Houston, Texas
May 17, 2016