

EASTER SEALS OF GREATER HOUSTON, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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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, 2016 and 2015, 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, 2016 and 2015, and the changes in its nets 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, 2016, 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 29, 2017, 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.

Wagner & Pearson Company, P.C.

Houston, Texas
May 29, 2017

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS	2016	2015
ASSETS		
Cash and cash equivalents - unrestricted	\$ 69,210	\$ 102,971
Cash restricted for Caroline School	<u>1,134,407</u>	<u>638,833</u>
Total cash and cash equivalents	1,203,617	741,804
Accounts receivable	1,559,968	1,446,762
Contributions receivable	1,510,587	2,128,477
Other assets	6,200	7,600
Property and equipment, net	<u>34,952</u>	<u>41,115</u>
TOTAL ASSETS	<u>\$ 4,315,324</u>	<u>\$ 4,365,758</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 605,367	\$ 612,188
Grant advance payable	414,207	-
Line of credit	454,887	302,866
Note payable	<u>47,047</u>	<u>60,855</u>
TOTAL LIABILITIES	<u>1,521,508</u>	<u>975,909</u>
NET ASSETS		
Unrestricted	(348,461)	308,912
Temporarily restricted	<u>3,142,277</u>	<u>3,080,937</u>
	<u>2,793,816</u>	<u>3,389,849</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,315,324</u>	<u>\$ 4,365,758</u>

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CHANGE IN UNRESTRICTED NET ASSETS		
REVENUES AND SUPPORT		
Government grants	\$ 4,398,383	\$ 4,846,145
Contributions	330,104	690,030
Program service fees/third party reimbursement	8,188,827	7,374,875
Special events, net of direct expenses of \$195,703 and \$211,236	575,151	564,928
Other income	6,306	3,874
	13,498,771	13,479,852
Net Assets Released from Restrictions	1,478,831	1,712,014
Total Revenues and Support	14,977,602	15,191,866
EXPENSES		
Program Services:		
Adult Program	62,453	58,896
Bridging Apps	314,552	414,007
Camps and Case Management	396,745	340,939
Children's Therapy	609,054	597,745
High School/High Tech	152,350	188,744
Housing	304,391	235,533
Infant Program	10,152,853	9,928,797
Respite Care	2,017,111	1,704,489
The Caroline School	309,905	299,562
Toy Tech	26,154	47,695
Transition	452,942	295,320
Veterans	97,822	43,917
Total program services	14,896,332	14,155,644
Management and general	292,495	291,869
Fundraising	446,148	476,845
Flood expenses	-	62,576
Total Expenses	15,634,975	14,986,934
CHANGE IN UNRESTRICTED NET ASSETS	(657,373)	204,932
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,540,171	1,618,077
Net Assets Released from Restrictions	(1,478,831)	(1,712,014)
CHANGE IN TEMPORARILY RESTRICTED ASSETS	61,340	(93,937)
CHANGE IN NET ASSETS BEFORE DISCONTINUED OPERATIONS	(596,033)	110,995
Social Motion Skills	-	(112,628)
CHANGE IN NET ASSETS	(596,033)	(1,633)
NET ASSETS, BEGINNING OF YEAR	3,389,849	3,391,482
NET ASSETS, END OF YEAR	\$ 2,793,816	\$ 3,389,849

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Program Services	Management and General	Fund Raising	Total	Program Services	Management and General	Fund Raising	Total
Salaries and wages	\$ 9,534,217	\$ 179,605	\$ 224,398	\$ 9,938,220	\$ 9,530,973	\$ 198,172	\$ 208,001	\$ 9,937,146
Employee benefits	501,579	9,820	10,869	522,268	423,984	4,062	12,267	440,313
Payroll taxes	675,926	11,064	16,864	703,854	689,814	8,316	8,405	706,535
Dues	68,341	4,970	6,319	79,630	57,283	4,456	4,092	65,831
Professional fees	706,155	13,064	54,596	773,815	695,793	5,959	24,883	726,635
Supplies	169,911	12,240	36,991	219,142	218,233	20,400	33,811	272,444
Telephone	142,083	2,736	2,989	147,808	115,055	2,536	3,017	120,608
Postage and shipping	18,977	-	3,473	22,450	22,616	639	6,422	29,677
Occupancy	452,790	8,429	8,669	469,888	378,325	6,669	9,629	394,623
Insurance	47,205	5,127	883	53,215	36,755	1,021	4,527	42,303
Mileage reimbursement	313,537	382	1,651	315,570	325,383	1,110	2,220	328,713
Travel	61,420	9,496	4,984	75,900	57,476	12,147	2,884	72,507
Printing	1,007	2,694	24,845	28,546	10,580	-	28,785	39,365
Equipment rental	35,781	6,536	-	42,317	29,915	7,583	-	37,498
Assistance to individuals	1,999,807	-	-	1,999,807	1,368,237	-	2,038	1,370,275
In-kind	113,447	-	26,000	139,447	145,396	-	100,000	245,396
Interest	-	26,085	-	26,085	-	17,175	-	17,175
Miscellaneous	39,386	247	22,617	62,250	36,874	1,624	25,864	64,362
Depreciation	14,763	-	-	14,763	12,952	-	-	12,952
Total Expenses	<u>\$ 14,896,332</u>	<u>\$ 292,495</u>	<u>\$ 446,148</u>	<u>\$ 15,634,975</u>	<u>\$ 14,155,644</u>	<u>\$ 291,869</u>	<u>\$ 476,845</u>	<u>\$ 14,924,358</u>

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (596,033)	\$ (1,633)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	14,763	12,952
Accounts receivable	(113,206)	(522,295)
Contributions receivable	617,890	224,823
Other assets	1,400	(3,026)
Accounts payable and accrued liabilities	(6,821)	131,290
Grant advance payable	414,207	-
 Total adjustments	 <u>928,233</u>	 <u>(156,256)</u>
 Net cash provided (used) by operating activities	 <u>332,200</u>	 <u>(157,889)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(8,600)</u>	<u>(29,385)</u>
 Net cash used by investing activities	 <u>(8,600)</u>	 <u>(29,385)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	1,253,000	2,534,000
Payments on line of credit	(1,100,979)	(2,231,134)
Payments on note payable	<u>(13,808)</u>	<u>(14,574)</u>
 Net cash provided by financing activities	 <u>138,213</u>	 <u>288,292</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 461,813	 101,018
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>741,804</u>	 <u>640,786</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u>\$ 1,203,617</u>	 <u>\$ 741,804</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 26,085</u>	<u>\$ 17,175</u>

See accompanying notes.

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, 2016 and 2015, two donors accounted for 78% and 76% 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 2016 and 2015.

ESGH believes that all significant tax positions utilized by ESGH will more likely than not be sustained upon examination. As of December 31, 2016, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2013 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.

Grant Advances Payable - Certain government grants contain provisions which allow for advances to be repaid throughout the grant period. Historically these advances have generally been offset by qualifying unbilled expenditures. During 2016, the advances became material due to increases in the grants. As a result, ESGH recorded the advances received under government grants and recognized a liability of \$414,207.

Operations - At December 31, 2016, ESGH is reporting an unrestricted deficit of \$348,461 and a negative change in net assets of \$596,033 for the year then ended. The 2016 loss is partly the result of recording the advances referred to above. In addition, the losses sustained in 2015 due to a flood and the discontinuation of Social Motion Skills contributed to the accumulated unrestricted deficit. Management is monitoring costs in each of the programs to reduce the unrestricted deficit.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Subsequent Events - ESGH has evaluated subsequent events through May 29, 2017, the date the financial statements were available to be issued. ESGH entered into a new leasing agreement for office space on March 3, 2017. See Note H. No other subsequent events occurred which require adjustment or disclosure to the financial statements at December 31, 2016.

NOTE B CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2016 and 2015 are receivable in the following periods:

	2016	2015
Receivable in one year or less	\$ 1,510,587	\$ 1,725,546
Receivable in one to five years	-	402,931
Total contributions receivable	\$ 1,510,587	\$ 2,128,477

NOTE C PROPERTY AND EQUIPMENT

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

	Lives	2016	2015
Furniture and equipment	3 - 7 yrs.	\$ 241,489	\$ 232,889
Leasehold improvements	4 - 5 yrs.	55,546	55,546
		297,035	288,435
Less accumulated depreciation		(262,083)	(247,320)
		\$ 34,952	\$ 41,115

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, 2016), which was renewed for \$500,000 on June 1, 2016 due to mature on June 1, 2017. 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, 2016 AND 2015

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, 2016 are as follows:

2017	\$	15,660
2018		16,217
2019		<u>15,170</u>
Total	\$	<u><u>47,047</u></u>

NOTE F TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Adult Program	\$ 43,338	\$ 5,000
Bridging Apps	125,500	13,000
Camps and Case Management	119,342	126,205
Caroline School Operating Endowment	1,134,407	888,833
Children's Therapy	63,508	66,127
Fund Development Program	-	5,000
High School/High Tech	57,884	57,403
Housing	20,000	46,000
Infant Program	531,338	552,338
Respite Care	169,889	124,195
Special Events to be held in the future	55,798	15,740
Toy Tech	32,500	31,000
Transition	713,273	1,115,596
Veterans	<u>75,500</u>	<u>34,500</u>
	<u>\$ 3,142,277</u>	<u>\$ 3,080,937</u>

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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>2016</u>	<u>2015</u>
Adult program	\$ 5,000	\$ 36,161
Bridging Apps	13,000	51,000
Camps and Case Management	126,205	158,801
Caroline School	-	3,500
Children's Therapy	66,127	86,882
Caroline School Operating Endowment	-	8,000
Fund development program	5,000	3,500
High School/High Tech	57,403	59,606
Housing	46,000	72,000
Infant Program	552,338	599,318
Respite Care	124,195	143,624
Social Motion Skills	-	66,603
Special Events	15,740	32,072
Toy Tech	31,000	42,000
Transition	402,323	305,520
Veterans	<u>34,500</u>	<u>43,427</u>
	<u>\$ 1,478,831</u>	<u>\$ 1,712,014</u>

NOTE H OPERATING LEASES AND COMMITMENTS

ESGH leases office space and equipment under operating leases and utilizes proprietary software under an annual contract. Subsequent to year end, ESGH entered into a new lease for office space through 2027. Future payments by fiscal year, including the new lease, are as follows:

2017	\$ 490,242
2018	593,178
2019	589,404
2020	572,238
2021	552,891
Thereafter	<u>3,503,749</u>
	<u>\$ 6,301,702</u>

Total expense under these contracts amounted to \$551,748 and \$498,445 for the years ended December 31, 2016 and 2015, respectively.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, no permanently restricted contributions have been received.

Changes in the operating endowment net assets are as follows:

Endowment net assets, December 31, 2014	\$ 486,460
Contributions	410,373
Appropriations	<u>(8,000)</u>
Endowment net assets, December 31, 2015	888,833
Contributions	245,574
Appropriations	<u>-</u>
Endowment net assets, December 31, 2016	<u>\$ 1,134,407</u>

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

	<u>2016</u>	<u>2015</u>
Cash	1,134,407	638,833
Contributions receivable	<u>-</u>	<u>250,000</u>
	<u>\$ 1,134,407</u>	<u>\$ 888,833</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 \$49,333 and \$52,540 during 2016 and 2015, respectively.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE K INSURANCE

ESGH carries commercial, professional and automobile liability insurance for the period October 2016 to October 2017. 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 2016 to October 2017 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, 2016 and 2015, ESGH contributed \$189,545 and \$100,908, 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.

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. Discontinued operations in 2015 is net of revenue of \$246,444.

**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, 2016

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			
Passed through Texas Department of Assistive and Rehabilitative Services Division for Early Childhood Intervention Services/Health and Human Services Commission			
Special Education-Grants to States	84.027	5382001552-01	\$ 324,981
Special Education-Grants for Infants and Families	84.181	5382001552-01	<u>1,253,990</u>
Total U.S. Department of Education			<u>1,578,971</u>
U.S. Department of Health and Human Services; Administration for Children and Families			
Passed through Texas Department of Assistive and Rehabilitative Services Division for Early Childhood Intervention Services/Health and Human Services Commission			
Temporary Assistance for Needy Families	93.558	5382001552-01	<u>575,174</u>
Total U.S. Department of Health and Human Services			<u>575,174</u>
U.S. Department of Housing and Urban Development; Office of Community Planning and Development			
Passed through Montgomery County, Texas Home Investment Partnerships Program			
	14.239	M-10-UC-48-0235	<u>107,589</u>
Total U.S. Department of Housing and Urban Development			<u>107,589</u>
U.S. Department of Justice; Office of Juvenile Justice and Delinquency Prevention			
Passed through the Institute for Educational Leadership Juvenile Mentoring Program			
	16.726	2012JUFX0014	<u>34,264</u>
Total U.S. Department of Justice			<u>34,264</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, 2016**

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 Homeland Security			
Passed through the United Way of Greater Houston Emergency Food and Shelter National Board Program	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>\$ 2,305,998</u>
Non-Federal Awards:			
Texas Department of Assistive and Rehabilitative Services Division for Early Childhood Intervention Services/Health and Human Services Commission			
Special Education-Grants to States	N/A	5382001552-01	\$ 2,303,657
Special Education-Grants to States	N/A	5382001552-02	<u>27,590</u>
Total Texas Department of Assistive and Rehabilitative Services Division for Early Childhood Intervention Services/Health and Human Services Commission			<u>2,331,247</u>
Texas Health and Human Services Commission			
Texas Veterans + Family Alliance Grant Program	N/A	529-16-0117-00003	<u>40,453</u>
Total Texas Health and Human Services Commission			<u>40,453</u>
Finance Commission of Texas			
Texas Financial Education Endowment	N/A	16-2A-02	<u>16,000</u>
Total Finance Commission of Texas			<u>16,000</u>
Texas Department of State Health Services			
Children and Youth with Special Health Care Needs	N/A	2017-049619-001	<u>33,333</u>
Total Texas Department of State Health Services			<u>33,333</u>
Total expenditures of non-federal awards			<u>\$ 2,421,033</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, 2016

NOTE A BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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.

ESGH has elected not to use the 10% de minimis indirect cost rate allowed under the *Uniform Guidance*.

**EASTER SEALS OF GREATER HOUSTON, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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:	
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/Health and Human Services Commission	
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/Health and Human Services Commission	
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. qualifies 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

None



**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, 2016, 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 29, 2017.

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 & Penner Company, P.C.

Houston, Texas
May 29, 2017



**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, 2016. 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, 2016.

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.

Hays & Pearson Company, P.C.

Houston, Texas
May 29, 2017