

EASTER SEALS OF GREATER HOUSTON, INC.

**FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS**

DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Easter Seals of Greater Houston, Inc.
Houston, 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, 2018 and 2017, 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, 2018 and 2017, 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, 2018, 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 23, 2019, 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.

Angus & Perren Company, P.C.

Houston, Texas
May 23, 2019

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS	2018	2017
ASSETS		
Cash and cash equivalents - unrestricted	\$ 57,327	\$ 184,753
Cash restricted for Caroline School	<u>1,252,288</u>	<u>1,432,407</u>
Total cash and cash equivalents	1,309,615	1,617,160
Accounts receivable	2,768,433	1,913,091
Contributions receivable	1,163,792	1,230,303
Other assets	42,887	13,930
Property and equipment, net	<u>113,282</u>	<u>99,325</u>
TOTAL ASSETS	<u>\$ 5,398,009</u>	<u>\$ 4,873,809</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,023,342	\$ 755,492
Deferred rent	197,261	63,727
Grant advance payable	500,160	434,945
Line of credit	300,000	100,000
Note payable	<u>13,914</u>	<u>30,122</u>
TOTAL LIABILITIES	<u>2,034,677</u>	<u>1,384,286</u>
NET ASSETS		
Without donor restrictions	375,681	(40,686)
With donor restrictions	<u>2,987,651</u>	<u>3,530,209</u>
	<u>3,363,332</u>	<u>3,489,523</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,398,009</u>	<u>\$ 4,873,809</u>

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES AND SUPPORT		
Government grants	\$ 7,470,690	\$ 6,530,819
Contributions	1,931,295	1,463,360
Program service fees/third party reimbursement	9,442,895	8,436,109
Special events	752,793	690,427
Other income	<u>27,005</u>	<u>22,800</u>
	19,624,678	17,143,515
Net Assets Released from Restrictions	<u>2,007,294</u>	<u>1,689,049</u>
	<u>21,631,972</u>	<u>18,832,564</u>
EXPENSES		
Program Services:		
Infant Development	12,794,602	11,287,221
Respite Care	1,964,955	1,969,418
Veterans	840,861	984,355
Disaster Relief	1,998,526	801,890
Adult Program	75,647	58,374
Bridging Apps	299,631	370,140
Camps and Case Management	538,657	421,180
Children's Therapy	676,919	657,880
High School/High Tech	122,723	146,156
Housing	278,275	318,757
The Caroline School	401,376	333,141
Toy Tech	20,322	19,543
Transition	<u>269,888</u>	<u>365,909</u>
Total program services	20,282,382	17,733,964
Management and general	334,302	273,256
Fundraising	<u>598,921</u>	<u>517,569</u>
Total Expenses	<u>21,215,605</u>	<u>18,524,789</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>416,367</u>	<u>307,775</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	1,464,736	2,076,981
Net assets released from restrictions	<u>(2,007,294)</u>	<u>(1,689,049)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(542,558)</u>	<u>387,932</u>
CHANGE IN NET ASSETS	(126,191)	695,707
NET ASSETS, BEGINNING OF YEAR	<u>3,489,523</u>	<u>2,793,816</u>
NET ASSETS, END OF YEAR	<u>\$ 3,363,332</u>	<u>\$ 3,489,523</u>

See accompanying notes.

**EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

2018

	Programs							TOTAL	
	Infant Development	Respite Care	Veterans	Disaster Relief	Other Programs	Total Programs	Management and General		
Salaries and benefits	\$ 10,936,699	\$ 281,067	\$ 381,381	\$ 895,481	\$ 1,743,516	\$ 14,238,144	\$ 252,037	\$ 303,681	\$ 14,793,862
Assistance to individuals	19,886	1,556,701	402,607	991,788	270,507	3,241,489	-	1,300	3,242,789
Professional fees	545,946	60,749	9,026	36,055	227,636	879,412	10,302	35,157	924,871
Occupancy	391,519	30,527	10,313	6,489	222,930	661,778	16,252	15,518	693,548
Mileage reimbursement	373,674	512	3,461	6,283	23,990	407,920	801	1,726	410,447
Supplies	126,266	7,830	7,673	37,135	62,302	241,206	9,135	26,865	277,206
Telephone	142,120	4,016	2,207	5,828	18,043	172,214	2,724	3,041	177,979
Direct donor benefits	-	-	-	-	-	-	-	139,523	139,523
In-kind	18,004	10,000	18,520	5,000	43,900	95,424	-	20,780	116,204
Miscellaneous	53,374	35	33	1,604	7,966	63,012	1,763	20,260	85,035
Travel	31,607	3,390	2,217	1,697	18,768	57,679	9,166	7,524	74,369
Dues	49,785	3,898	857	1,109	11,625	67,274	3,445	1,995	72,714
Equipment rental	46,429	650	983	2,501	3,368	53,931	8,137	-	62,068
Insurance	30,335	1,703	717	4,028	7,667	44,450	25	965	45,440
Printing	4,234	-	562	2,073	1,646	8,515	3,638	17,477	29,630
Postage and shipping	16,482	3,757	304	1,455	3,611	25,609	638	3,109	29,356
Depreciation	8,242	120	-	-	15,963	24,325	874	-	25,199
Interest	-	-	-	-	-	-	15,365	-	15,365
Total Expenses	\$ 12,794,602	\$ 1,964,955	\$ 840,861	\$ 1,998,526	\$ 2,683,438	\$ 20,282,382	\$ 334,302	\$ 598,921	\$ 21,215,605

See accompanying notes.

**EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED 2017**

2017

	Programs							Management and General	Fundraising	TOTAL
	Infant Development	Respite Care	Veterans	Disaster Relief	Other Programs	Total Programs				
Salaries and benefits	\$ 9,540,196	\$ 266,653	\$ 423,773	\$ 316,465	\$ 1,518,408	\$ 12,065,495	\$ 176,765	\$ 230,436	\$ 12,472,696	
Assistance to individuals	25,455	1,553,095	371,482	318,097	359,564	2,627,693	-	-	2,627,693	
Professional fees	501,868	65,761	38,253	26,904	417,965	1,050,751	10,344	47,912	1,109,007	
Occupancy	284,042	32,831	10,430	-	205,546	532,849	14,156	11,545	558,550	
Mileage reimbursement	300,149	2,335	5,833	216	29,343	337,876	678	1,641	340,195	
Supplies	225,176	7,331	11,126	5,946	46,639	296,218	16,425	44,529	357,172	
Telephone	150,628	3,520	2,546	-	21,025	177,719	1,859	3,380	182,958	
Direct donor benefits	-	-	-	-	-	-	-	106,408	106,408	
In-kind	18,004	25,000	110,800	133,700	32,370	319,874	-	20,800	340,674	
Miscellaneous	57,039	390	3	-	4,084	61,516	1,470	14,745	77,731	
Travel	26,689	730	7,047	145	16,636	51,247	12,013	6,080	69,340	
Dues	46,293	4,640	1,298	-	9,791	62,022	4,792	2,644	69,458	
Equipment rental	48,553	359	359	-	2,222	51,493	6,667	-	58,160	
Insurance	42,643	2,735	642	-	10,939	56,959	903	1,367	59,229	
Printing	-	-	604	278	-	882	-	20,430	21,312	
Postage and shipping	14,609	4,038	159	139	3,758	22,703	701	5,652	29,056	
Depreciation	5,877	-	-	-	12,790	18,667	-	-	18,667	
Interest	-	-	-	-	-	-	26,483	-	26,483	
Total Expenses	\$ 11,287,221	\$ 1,969,418	\$ 984,355	\$ 801,890	\$ 2,691,080	\$ 17,733,964	\$ 273,256	\$ 517,569	\$ 18,524,789	

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (126,191)	\$ 695,707
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	25,199	18,667
Donated equipment	-	(41,500)
Accounts receivable	(855,342)	(353,123)
Contributions receivable	66,511	280,284
Other assets	(28,957)	(7,730)
Accounts payable and accrued liabilities	267,850	150,125
Deferred rent	133,534	63,727
Grant advance payable	65,215	20,738
	(325,990)	131,188
Total adjustments		
Net cash (used) provided by operating activities	(452,181)	826,895
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(39,156)	(41,540)
Net cash used by investing activities	(39,156)	(41,540)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	1,012,117	873,077
Payments on line of credit	(812,117)	(1,227,964)
Payments on note payable	(16,208)	(16,925)
Net cash provided (used) by financing activities	183,792	(371,812)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(307,545)	413,543
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,617,160	1,203,617
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,309,615	\$ 1,617,160
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 16,092	\$ 26,483

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. Deposits with these financial institutions exceeded the amount of federal deposit insurance provided on such deposits (by approximately \$1,060,000 at December 31, 2018); 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 - At December 31, 2018 and 2017, all receivables are due within one year. 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, 2018 and 2017, three donors accounted for 83% and 88% 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 support with donor restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as support without donor restrictions. 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 statements 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 statements 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 support with donor restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the organization reports as support without donor restrictions.

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 - ESGH records expenses directly to the applicable program or support function as much as possible. Salaries and benefits are charged directly based on actual time reporting. Occupancy expenses are allocated based on square footage. All other expenses which cannot be directly identified with a specific program or support function are allocated based on employee head count percentages.

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 2018 and 2017.

ESGH believes that all significant tax positions utilized by ESGH will more likely than not be sustained upon examination. As of December 31, 2018, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2015 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.

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

Implementation of New Accounting Standard - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*" in August 2016. This ASU became effective for the ESGH on January 1, 2018. The ASU amends the current reporting model for nonprofit organizations and enhances required disclosures. The major provisions of the standard applicable to ESGH include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) requiring that all nonprofits present an expanded analysis of expenses by function and disclose a summary of the allocation methods used to allocate costs, and (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources. There was no impact on previously reported net assets or changes in net assets.

Recent Accounting Pronouncement Not Yet Effective - In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, "*Leases (Topic 842)*". Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. The new standard is effective for the ESGH for the year beginning January 1, 2020. ESGH is currently evaluating the effect the provisions of ASU 2016-02 will have on the financial statements.

Reclassifications - For the statement of activities, 2017 special events direct donor benefits have been reclassified out of revenues and into expenses. The statement of functional expenses has been expanded to highlight certain programs and the order of the natural classifications was changed for 2017. These changes were made to conform to the 2018 presentation.

Subsequent Events - ESGH has evaluated subsequent events through May 23, 2019, the date the financial statements were available to be issued. Except for additional borrowings of \$160,000 on the line of credit discussed in Note C, no other subsequent events occurred which require adjustment or disclosure to the financial statements at December 31, 2018.

NOTE B LIQUIDITY AND AVAILABILITY

ESGH relies on program service revenues and contributions to support operations. To help manage unanticipated liquidity needs, ESGH has a committed line of credit in the amount of \$500,000 which it could draw upon. Additionally, ESGH has an operating Endowment for the Caroline School of \$1,432,407. Although ESGH does not intend to spend from its operating Endowment, other than amounts appropriated for The Caroline School general expenditures as part of its annual budget approval, amounts from the operating Endowment could be made available to ESGH for general operations, upon approval by the Board of Directors. During 2018, \$180,119 of the funds of The Caroline School operating Endowment were utilized for general operations. When repaid, ESGH will increase the operating Endowment by an amount equivalent to a reasonable rate of interest (5%).

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE B LIQUIDITY AND AVAILABILITY (CONTINUED)

The following reflects ESGH's financial assets as of the balance sheet date, including amounts not available within one year of the balance sheet date.

	<u>2018</u>	<u>2017</u>
Financial assets at year end:		
Cash and cash equivalents - unrestricted	\$ 57,327	\$ 184,753
Cash restricted for Caroline School	1,252,288	1,432,407
Accounts receivable	2,768,533	1,913,091
Contributions receivable	<u>1,163,792</u>	<u>1,230,303</u>
 Total financial assets	 <u>5,241,940</u>	 <u>4,760,554</u>
 Less amounts not available to be used within one year:		
Net assets with donor restrictions	2,987,651	3,530,209
Less net assets with purpose and time restrictions to be met in less than a year	<u>(1,555,244)</u>	<u>(2,097,802)</u>
	 <u>1,432,407</u>	 <u>1,432,407</u>
 Financial assets available to meet general expenditures over the next twelve months	 <u>\$ 3,809,533</u>	 <u>\$ 3,328,147</u>

NOTE C PROPERTY AND EQUIPMENT

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

	<u>Lives</u>	<u>2018</u>	<u>2017</u>
Furniture and equipment	3 - 7 yrs.	\$ 275,944	\$ 265,522
Leasehold improvements	4 - 5 yrs.	<u>70,274</u>	<u>41,540</u>
		346,218	307,062
Less accumulated depreciation		<u>(232,936)</u>	<u>(207,737)</u>
		 <u>\$ 113,282</u>	 <u>\$ 99,325</u>

NOTE D LINE OF CREDIT

ESGH has a \$500,000 line of credit from a bank which bears interest at prime rate plus .5% subject to a floor of 5% at December 31, 2018 and matures on June 1, 2019. 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, 2018 AND 2017

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 and matures in September 2019. 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.

NOTE F NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

	2018	2017
Bridging Apps	\$ 57,519	\$ 67,800
Camps and Case Management	130,003	136,165
The Caroline School	2,000	4,000
Caroline School Operating Endowment	1,432,407	1,432,407
Children's Therapy	59,124	66,238
Disaster Relief	235,021	512,188
High School/High Tech	57,892	61,436
Housing	66,811	71,750
Infant Development	550,583	571,911
Respite Care	123,110	130,001
Special Events to be held in the future	121,364	28,596
Toy Tech	27,081	29,353
Transition	92,736	351,364
Veterans	32,000	67,000
	\$ 2,987,651	\$ 3,530,209

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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:

	2018	2017
Adult program	\$ -	\$ 43,338
Bridging Apps	67,800	125,500
Camps and Case Management	136,165	119,342
Children's Therapy	66,238	63,508
Caroline School Operating Endowment	4,000	41,500
Disaster Relief	512,188	-
High School/High Tech	61,436	57,884
Housing	71,750	70,000
Infant Development	571,911	531,338
Respite Care	130,001	119,889
Special Events	28,596	55,798
Toy Tech	20,322	19,543
Transition	269,887	365,909
Veterans	67,000	75,500
	<u>\$ 2,007,294</u>	<u>\$ 1,689,049</u>

NOTE H OPERATING LEASES AND COMMITMENTS

ESGH leases office space and equipment under operating leases through 2027 and utilizes proprietary software under an annual contract. Future payments by fiscal year are as follows:

2019	\$ 543,170
2020	524,700
2021	509,949
2022	607,007
2023	590,487
Thereafter	2,412,317
	<u>\$ 5,187,630</u>

Total expense under these contracts amounted to \$698,708 and \$654,080 for the years ended December 31, 2018 and 2017, respectively.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, 2018 and 2017, no permanently restricted contributions have been received.

Changes in the operating endowment net assets are as follows:

Endowment net assets, December 31, 2016	\$ 1,134,407
Contributions	298,000
Appropriations	<u>-</u>
Endowment net assets, December 31, 2017	1,432,407
Contributions	-
Appropriations	<u>-</u>
Endowment net assets, December 31, 2018	<u>\$ 1,432,407</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 \$56,040 and \$59,825 during 2018 and 2017, respectively.

NOTE K INSURANCE

ESGH carries commercial, professional and automobile liability insurance for the period October 2018 to October 2019. 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 2018 to October 2019 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, 2018 and 2017, ESGH contributed \$258,818 and \$235,431, respectively to the 403(b) plan.

NOTE M **CONTINGENCY**

The majority of the government grants are received either directly from or are passed through the Texas Department of Health and Human 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.

SINGLE AUDIT REPORTS

**EASTER SEALS OF GREATER HOUSTON, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title and Non-Federal Grantor</u>	<u>Federal CFDA Number</u>	<u>Identifying Number</u>	<u>Federal and Non-Federal Expenditures</u>
Federal Awards:			
U.S. Department of Education; Office of Special Education and Rehabilitative Services			
Passed through Texas Health and Human Services Commission Division for Early Childhood Intervention Services			
Special Education-Grants to States	84.027	5382001552-01	\$ 531,692
Special Education-Grants for Infants and Families	84.181	5382001552-01	<u>3,061,733</u>
Total U.S. Department of Education			<u>3,593,425</u>
U.S. Department of Health and Human Services; Administration for Children and Families			
Passed through Texas Health and Human Services Commission Division for Early Childhood Intervention Services			
Temporary Assistance for Needy Families	93.558	5382001552-01	<u>1,028,874</u>
Total U.S. Department of Health and Human Services			<u>1,028,874</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>132,240</u>
Total U.S. Department of Housing and Urban Development			<u>132,240</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>60,000</u>
Total U.S. Department of Justice			<u>60,000</u>
Total expenditures of federal awards			<u>\$ 4,814,539</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, 2018

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title and Non-Federal Grantor</u>	<u>Federal CFDA Number</u>	<u>Identifying Number</u>	<u>Federal and Non-Federal Expenditures</u>
Continued			
Non-Federal Awards:			
Texas Health and Human Services Commission Division for Early Childhood Intervention Services			
Special Education-Grants to States	N/A	5382001552-01	\$ 1,850,439
Special Education-Grants to States	N/A	5382001552-02	<u>14,393</u>
Total Texas Health and Human Services Commission Division for Early Childhood Intervention Services			<u>1,864,832</u>
Texas Health and Human Services Commission			
Texas Veterans + Family Alliance Grant Program	N/A	529-16-0117-00003	<u>656,318</u>
Total Texas Health and Human Services Commission			<u>656,318</u>
Texas Department of State Health Services			
Children and Youth with Special Health Care Needs	N/A	2017-049619-001	<u>100,000</u>
Total Texas Department of State Health Services			<u>100,000</u>
Total expenditures of non-federal awards			<u>\$ 2,621,150</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, 2018

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, 2018**

SECTION I - 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 weaknesses or significant deficiencies in internal controls over financial reporting was
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 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:

Federal Awards:

U.S. Department of Education; Office of Special Education and Rehabilitative Services
Passed through Texas Health and Human Services Commission
Division for Early Childhood Intervention Services

Special Education-Grants for Infants and Families

CFDA
Number

84.181

Non-Federal Awards:

Texas Health and Human Services Commission
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.

SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT

None

**EASTER SEALS OF GREATER HOUSTON, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

SECTION III - FEDERAL AND NON-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2018-1 Reporting

Criteria:

2 CFR section 200.512 (a) (Uniform Administrative Requirements) states that financial statement and compliance audit submissions are due to the Federal Audit Clearinghouse within 30 days after the reports are received from the auditors but no later than nine months after the end of the audit period.

Condition:

For the year ended December 31, 2017, the auditor's reports were released on July 6, 2018 and the single audit reporting package was electronically submitted on September 6, 2018. The submission was delinquent under the 30 day requirement. Thus, the reporting package for Easter Seals of Greater Houston, Inc. was not submitted to the federal government timely.

Cause:

The late submission of the single audit reporting package was due to the internal compliance calendar not being updated after experiencing a delay in the issuance of the single audit report.

Effect:

Easter Seals of Greater Houston, Inc. was not in compliance with the reporting section of the Uniform Guidance.

Recommendation:

Easter Seals of Greater Houston, Inc. should implement a control process to ensure that the due dates for all required filings are met.

Views of Responsible Officials and Planned Corrective Actions:

Name of Contact Person: Elise Hough, CEO

Views: We agree with the finding that that Easter Seals of Greater Houston, Inc. was not in compliance with this section of the Uniform Guidance.

Corrective Action:

The state and federal filings checklist has been updated to require the single audit be filed with the Federal Audit Clearinghouse within one week of receipt of reports from the auditors. This change in procedure, we feel, will ensure compliance.

Proposed Completion Date: May 2019.

SECTION IV - 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.
Houston, 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, 2018, 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 23, 2019.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2018-1.

Easter Seals of Greater Houston, Inc.'s Response to Finding

ESGH's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. ESGH's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Hoyer & Pearson Company, P.C.

Houston, Texas
May 23, 2019



**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.
Houston, 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, 2018. 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, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-1. Our opinion on each major federal program is not modified with respect to this matter.

Easter Seals of Greater Houston, Inc.'s Response to Finding

ESGH's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. ESGH's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Houston, Texas
May 23, 2019

Wagner & Patten Company, P.C.