

EASTER SEALS OF GREATER HOUSTON, INC.

**FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS**

DECEMBER 31, 2019 AND 2018

CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	2-3
Statements of Financial Position	4
Statements of Activities.....	5
Statements of Functional Expenses.....	6-7
Statements of Cash Flows	8
Notes to Financial Statements	9-16
Single Audit Reports	
Schedule of Expenditures of Federal and Non-Federal Awards.....	17-18
Note to Schedule of Expenditures of Federal and Non-Federal Awards	19
Schedule of Findings and Questioned Costs.....	20-23
Corrective Action Plan	24
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	25-26
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.....	27-28

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, 2019 and 2018, 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, 2019 and 2018, 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, 2019, 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 July 24, 2020, 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.

A handwritten signature in dark red ink that reads "Harper & Pearson Company, P.C." in a cursive script.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas

July 24, 2020, except for the Schedule of Expenditures of Federal and Non-Federal Awards and the report on compliance,

The date of which is September 17, 2020

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

ASSETS	2019	2018
ASSETS		
Cash and cash equivalents - unrestricted	\$ 56,315	\$ 57,327
Cash restricted for Caroline School	<u>704,334</u>	<u>1,252,288</u>
Total cash and cash equivalents	760,649	1,309,615
Accounts receivable	2,400,292	2,768,433
Contributions receivable	1,256,791	1,163,792
Other assets	17,378	42,887
Property and equipment, net	<u>107,713</u>	<u>113,282</u>
TOTAL ASSETS	<u>\$ 4,542,823</u>	<u>\$ 5,398,009</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 909,545	\$ 1,023,342
Deferred rent	316,369	197,261
Grant advance payable	801,248	500,160
Line of credit	300,000	300,000
Note payable	<u>-</u>	<u>13,914</u>
TOTAL LIABILITIES	<u>2,327,162</u>	<u>2,034,677</u>
NET ASSETS		
Without donor restrictions	(481,592)	375,681
With donor restrictions	<u>2,697,253</u>	<u>2,987,651</u>
	<u>2,215,661</u>	<u>3,363,332</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,542,823</u>	<u>\$ 5,398,009</u>

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES AND SUPPORT		
Government grants	\$ 8,427,228	\$ 7,470,690
Contributions	916,512	1,931,295
Program service fees/third party reimbursement	9,073,257	9,442,895
Special events	791,939	752,793
Other income	<u>16,352</u>	<u>27,005</u>
	19,225,288	19,624,678
Net Assets Released from Restrictions	<u>1,855,244</u>	<u>2,007,294</u>
Total Revenues and Support	<u>21,080,532</u>	<u>21,631,972</u>
EXPENSES		
Program Services:		
Infant Development	13,604,475	12,794,602
Respite Care	2,177,556	1,964,955
Veterans	1,919,884	840,861
Disaster Relief	260,018	1,998,526
Adult Program	91,843	75,647
Bridging Apps	237,153	299,631
Camps and Case Management	641,173	538,657
Children's Therapy	727,572	676,919
High School/High Tech	131,025	122,723
Housing	375,024	278,275
The Caroline School	466,755	401,376
Toy Tech	46,027	20,322
Transition	<u>241,556</u>	<u>269,888</u>
Total program services	20,920,061	20,282,382
Management and general	400,030	334,302
Fundraising	<u>617,714</u>	<u>598,921</u>
Total Expenses	<u>21,937,805</u>	<u>21,215,605</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(857,273)</u>	<u>416,367</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	1,564,846	1,464,736
Net assets released from restrictions	<u>(1,855,244)</u>	<u>(2,007,294)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(290,398)</u>	<u>(542,558)</u>
CHANGE IN NET ASSETS	(1,147,671)	(126,191)
NET ASSETS, BEGINNING OF YEAR	<u>3,363,332</u>	<u>3,489,523</u>
NET ASSETS, END OF YEAR	<u>\$ 2,215,661</u>	<u>\$ 3,363,332</u>

See accompanying notes.

EASTER SEALS OF GREATER HOUSTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019								
	Programs						Management and General	Fundraising	TOTAL
	Infant Development	Respite Care	Veterans	Disaster Relief	Other Programs	Total Programs			
Salaries and benefits	\$ 11,587,676	\$ 282,879	\$ 1,060,500	\$ 180,078	\$ 2,031,478	\$ 15,142,611	\$ 265,204	\$ 322,695	\$ 15,730,510
Assistance to individuals	40,943	1,775,404	713,636	59,143	321,062	2,910,188	-	1,003	2,911,191
Professional fees	624,048	63,085	16,525	3,290	132,778	839,726	24,885	26,356	890,967
Occupancy	344,467	25,409	16,120	4,051	232,875	622,922	28,077	16,172	667,171
Mileage reimbursement	404,226	275	9,976	1,659	33,291	449,427	575	2,212	452,214
Supplies	158,147	6,262	10,759	384	57,083	232,635	11,801	36,462	280,898
Telephone	151,946	3,451	7,811	2,825	25,095	191,128	3,495	2,854	197,477
Direct donor benefits	-	-	-	-	-	-	-	104,146	104,146
In-kind	28,704	14,334	66,458	1,250	48,148	158,894	-	56,325	215,219
Miscellaneous	45,464	20	250	35	1,384	47,153	3,221	17,835	68,209
Travel	48,252	61	10,964	2,307	27,199	88,783	7,416	9,560	105,759
Dues	66,467	1,402	2,919	2,143	12,050	84,981	3,846	4,098	92,925
Equipment rental	35,263	674	1,395	1,036	5,408	43,776	4,152	539	48,467
Insurance	40,569	1,073	2,076	1,665	7,628	53,011	643	858	54,512
Printing	9,845	281	198	70	2,134	12,528	653	12,490	25,671
Postage and shipping	12,222	2,587	297	82	5,408	20,596	4,273	4,109	28,978
Depreciation	6,236	359	-	-	15,107	21,702	6,030	-	27,732
Interest	-	-	-	-	-	-	35,759	-	35,759
Total Expenses	<u>\$ 13,604,475</u>	<u>\$ 2,177,556</u>	<u>\$ 1,919,884</u>	<u>\$ 260,018</u>	<u>\$ 2,958,128</u>	<u>\$ 20,920,061</u>	<u>\$ 400,030</u>	<u>\$ 617,714</u>	<u>\$ 21,937,805</u>

See accompanying notes.

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

	2018								
	Programs						Management and General	Fundraising	TOTAL
	Infant Development	Respite Care	Veterans	Disaster Relief	Other Programs	Total Programs			
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.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,147,671)	\$ (126,191)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	27,732	25,199
Accounts receivable	368,141	(855,342)
Contributions receivable	(92,999)	66,511
Other assets	25,509	(28,957)
Accounts payable and accrued liabilities	(113,797)	267,850
Deferred rent	119,108	133,534
Grant advance payable	<u>301,088</u>	<u>65,215</u>
 Total adjustments	 <u>634,782</u>	 <u>(325,990)</u>
 Net cash used by operating activities	 <u>(512,889)</u>	 <u>(452,181)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(22,163)</u>	<u>(39,156)</u>
 Net cash used by investing activities	 <u>(22,163)</u>	 <u>(39,156)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	410,000	1,012,117
Payments on line of credit	(410,000)	(812,117)
Payments on note payable	<u>(13,914)</u>	<u>(16,208)</u>
 Net cash (used) provided by financing activities	 <u>(13,914)</u>	 <u>183,792</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (548,966)	 (307,545)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>1,309,615</u>	 <u>1,617,160</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u>\$ 760,649</u>	 <u>\$ 1,309,615</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 35,759</u>	<u>\$ 16,092</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.

Concentrations of Credit Risk - Financial instruments which subject ESGH to concentrations of credit risk consist principally of cash, contributions receivable and accounts receivable. Cash is maintained with financial institutions in the United States. Deposits with financial institutions exceeded the amount of federal deposit insurance provided on such deposits (approximately \$510,000 at December 31, 2019); 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.

No collateral or other security is required to support contributions receivable and accounts 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. For the years ended December 31, 2019 and 2018, three donors accounted for 96% and 83% of contributions receivable, respectively.

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.

Accounts Receivable - Accounts receivable include amounts due from program service fees. At December 31, 2019 and 2018, all are due within one year.

Contributions Receivable - Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted, if material, to estimate the present value of future cash flows. Estimated discounts at December 31, 2019 and 2018 were considered immaterial.

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.

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

Grant Advances Payable - Certain government grants contain provisions which allow for advances to be repaid throughout the grant period.

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.

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 and Government Grants - ESGH recognizes program service fee revenue when the services are rendered. Amounts are billed monthly and revenue is recorded at the expected net cash collection based on contractual rates.

Cost-reimbursable federal and state contracts and grants are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts awarded are recognized as revenue when ESGH has incurred expenditures in compliance with specific contract or grant provisions.

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.

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

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 2019 and 2018.

ESGH believes that all significant tax positions utilized will more likely than not be sustained upon examination. As of December 31, 2019, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2016 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.

Implementation of New Accounting Standard - 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, 2022. ESGH is currently evaluating the effect the provisions of ASU 2016-02 will have on the financial statements.

Subsequent Events - ESGH has evaluated subsequent events through July 24, 2020, the date the financial statements were available to be issued.

As a result of the COVID-19 pandemic occurring after December 31, 2019, economic uncertainties have arisen which may negatively affect ESGH. While the situation is expected to be temporary, the extent to which COVID-19 may impact the financial condition or results of operations of ESGH is uncertain.

On April 16, 2020, ESGH obtained a loan in the amount of \$2,889,500, pursuant to the Paycheck Protection Program (the "PPP"). The loan matures on April 16, 2022 and bears interest at a rate of 1% per annum, payable monthly commencing on August 16, 2021. Under the terms of the PPP, the principal balance of the loan is subject to partial or full forgiveness contingent on compliance with certain criteria. The note may be prepaid by ESGH at any time prior to maturity with no prepayment penalties.

As disclosed in Note E, ESGH also renewed a line of credit in June 2020. No other subsequent events occurred which require adjustment or disclosure to the financial statements at December 31, 2019.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 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 \$750,000 which it could draw upon. Additionally, ESGH has an operating Endowment for the Caroline School of \$1,132,407 and \$1,432,407 at December 31, 2019 and 2018, respectively. As part of the annual budget, ESGH appropriates amounts from the operating Endowment for general expenditures of The Caroline School. During 2019, \$300,000 was appropriated from the Endowment for general operating expenditures of the Caroline School.

Although ESGH does not intend to spend from its operating Endowment amounts in excess of those budgeted, the operating Endowment could be made available to ESGH for general operations, upon approval by the Board of Directors. In addition, during 2019 and 2018, \$247,954 and \$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%).

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>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash and cash equivalents - unrestricted	\$ 56,315	\$ 57,327
Cash restricted for Caroline School	704,334	1,252,288
Accounts receivable	2,400,292	2,768,533
Contributions receivable	<u>1,256,791</u>	<u>1,163,792</u>
Total financial assets	<u>4,417,732</u>	<u>5,241,940</u>
Less amounts not available to be used within one year:		
Long-term contributions receivable	190,000	-
Caroline School operating endowment	<u>1,132,407</u>	<u>1,432,407</u>
	<u>1,322,407</u>	<u>1,432,407</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 3,095,325</u>	<u>\$ 3,809,533</u>

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE C CONTRIBUTION RECEIVABLES

The table below sets forth contribution receivables at December 31:

	2019	2018
Receivable in one year or less	\$ 1,066,791	\$ 1,163,792
Receivable in one to five years	190,000	-
Total contributions receivable	\$ 1,256,791	\$ 1,163,792

NOTE D PROPERTY AND EQUIPMENT

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

	Lives	2019	2018
Furniture and equipment	3 - 7 yrs.	\$ 293,806	\$ 275,944
Leasehold improvements	4 - 5 yrs.	74,574	70,274
		368,380	346,218
Less accumulated depreciation		(260,667)	(232,936)
		\$ 107,713	\$ 113,282

NOTE E LINE OF CREDIT

ESGH has a \$750,000 line of credit from a bank which bears interest at prime rate plus .5% subject to a floor of 4.25%. Borrowings are limited to 70% of accounts receivable less than sixty days old and are secured by essentially all assets of ESGH. The line of credit matured on June 1, 2020 and was renewed through June 1, 2021 with similar terms.

NOTE F LONG TERM DEBT

On October 9, 2013, ESGH entered into a promissory note agreement with a bank for \$91,962. The note bore interest at 3.5% and was payable in monthly installments of \$1,418 through maturity at September 2019, at which time it was fully paid. The note was 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.

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE G NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2018</u>
Adult Program	\$ 2,500	\$ -
Bridging Apps	83,084	57,519
Camps and Case Management	171,392	130,003
The Caroline School	14,500	2,000
Caroline School Operating Endowment	1,132,407	1,432,407
Children's Therapy	66,168	59,124
Disaster Relief	100,000	235,021
High School/High Tech	72,148	57,892
Housing	116,804	66,811
Infant Development	538,762	550,583
Respite Care	126,104	123,110
Special Events to be held in the future	47,837	121,364
Toy Tech	49,084	27,081
Transition	-	92,736
Veterans	<u>176,463</u>	<u>32,000</u>
	<u>\$ 2,697,253</u>	<u>\$ 2,987,651</u>

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>2019</u>	<u>2018</u>
Bridging Apps	\$ 60,019	\$ 67,800
Camps and Case Management	130,003	136,165
Children's Therapy	59,124	66,238
Caroline School	2,000	-
Caroline School Operating Endowment	300,000	4,000
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	121,364	28,596
Toy Tech	24,581	20,322
Transition	92,736	269,887
Veterans	<u>32,000</u>	<u>67,000</u>
	<u>\$ 1,855,244</u>	<u>\$ 2,007,294</u>

EASTER SEALS OF GREATER HOUSTON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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:

2020	\$ 524,700
2021	509,949
2022	607,007
2023	590,487
2024	582,819
Thereafter	<u>1,829,499</u>
	<u>\$ 4,644,461</u>

Total expense under these contracts amounted to \$702,740 and \$698,708 for the years ended December 31, 2019 and 2018, 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 Board of Directors must approve the amount of operating expenditures to be paid from the operating endowment. The principal of the operating endowment may also be used for special projects or unexpected expenses of the School 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, 2019 and 2018, no permanently restricted contributions have been received.

Changes in the operating endowment net assets are as follows:

Endowment net assets, December 31, 2017	\$ 1,432,407
Contributions	-
Appropriations	<u>-</u>
Endowment net assets, December 31, 2018	1,432,407
Contributions	-
Appropriations	<u>(300,000)</u>
Endowment net assets, December 31, 2019	<u>\$ 1,132,407</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 \$70,943 and \$56,040 during 2019 and 2018, respectively.

NOTE K INSURANCE

ESGH is covered by commercial, professional and automobile liability insurance through October 2020. Coverage limits range from \$1,000,000 maximum for each occurrence up to \$3,000,000 in the aggregate. Workman's compensation and employer's liability insurance is also effective through October 2020 with a \$1,000,000 policy limit.

NOTE L BENEFIT PLAN

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, 2019 and 2018, ESGH contributed \$288,523 and \$258,818, 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, 2019

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 Health and Human Services Commission Division for Early Childhood Intervention Services			
Special Education-Grants to States	84.027	HHS000191200030	\$ 263,157
Special Education-Grants for Infants and Families	84.181	HHS000191200030	<u>3,811,938</u>
Total U.S. Department of Education			<u>4,075,095</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	HHS000191200030	<u>926,339</u>
Total U.S. Department of Health and Human Services			<u>926,339</u>
U.S. Department of Housing and Urban Development; Office of Community Planning and Development			
Housing Counseling Assistance Program	14.169	HC2008210009	24,361
Passed through Montgomery County, Texas Home Investment Partnerships Program	14.239	M-20-UC-48-0235	<u>270,189</u>
Total U.S. Department of Housing and Urban Development			<u>294,550</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>70,658</u>
Total U.S. Department of Justice			<u>70,658</u>
Total expenditures of federal awards			<u>\$ 5,366,642</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, 2019

Federal Grantor/Pass-through Grantor/ Program or Cluster Title and Non-Federal Grantor	Federal CFDA Number	Identifying Number	Federal and Non-Federal Expenditures
Continued			
Non-Federal Awards:			
Texas Health and Human Services Commission			
Division for Early Childhood Intervention Services			
Special Education-Grants to States	N/A	HHS000191200030	\$ 1,611,347
Special Education-Grants to States	N/A	HHS000191200030	<u>34,561</u>
Total Division for Early Childhood Intervention Services			<u>1,645,908</u>
Texas Veterans + Family Alliance Grant Program	N/A	HHS00125400004	868,682
Texas Veterans + Family Alliance Grant Program	N/A	HHS000329700010	<u>297,832</u>
Total Texas Veterans + Family Alliance Grant Program			<u>1,166,514</u>
Total Texas Health and Human Services Commission			<u>2,812,422</u>
Texas Department of State Health Services			
Children and Youth with Special Health Care Needs	N/A	2017-049619-001	<u>75,000</u>
Total Texas Department of State Health Services			<u>75,000</u>
Texas Veterans Commission			
Mental Health Services for Veterans	N/A	GT-VMH19-010	<u>132,509</u>
Total Texas Veterans Commission			<u>132,509</u>
Brazos County	N/A	none	<u>35,000</u>
Total Brazos County			<u>35,000</u>
Total expenditures of non-federal awards			<u>\$ 3,054,931</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, 2019

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, 2019**

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 in internal controls over financial reporting were identified, however a significant deficiency 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 over the internal controls over major programs were identified, however a significant deficiency over the internal controls over major programs was 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 Passed through Texas Health and Human Services Commission Division for Early Childhood Intervention Services	
Special Education-Grants for Infants and Families	84.181
Special Education-Grants to States	84.027
Non-Federal Awards:	
Texas Health and Human Services Commission	
Division for Early Childhood Intervention Services Special Education-Grants to States	N/A
Texas Veterans & Family Alliance	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

2019-1 Recording Support and Revenue

Criteria:

Generally accepted accounting principles require unconditional long term pledges to be recorded upon notification of the gift and program service fees to be recorded when performance obligations are met.

Condition:

A contribution to be received in future years was not recorded timely. Management was aware of the contribution notification received in December, but did not make the appropriate accounting entries until requested by auditor. In addition, certain unbilled program service fees were not recorded as revenue when earned, but rather were recorded when invoiced. Management detected and corrected the revenues as part of a reconciliation prepared in June.

Cause:

Staff turnover and closing the year end while working remotely due to the Covid-19 pandemic resulted in reduced communication between departments and inadequate supervision and review.

Effect:

Income was understated.

Recommendation:

Easter Seals of Greater Houston, Inc. should develop procedures to provide training to ensure communication between development and billing departments and the accounting are sufficient to allow for proper recording of contributions and program service fees. Further, management should conduct review of financial results more thoroughly and on a timely basis.

Views of Responsible Officials and Planned Corrective Actions:

Easter Seals received a three year pledge from a donor in December of 2019. While the funds included for the first payment were properly recorded, the remaining receivable was not recorded. Additionally, prescribed forms for billing certain government program activity were not available from the government until after year-end causing a delay in recording earned fees. As a result of operational challenges while working through the COVID pandemic and transition to a new CFO, controls in place to review program service billing activity were not fully executed prior to the audit.

A process has been developed whereby the CEO and CFO perform regular reviews of grant activity to ensure copies of all agreements have been provided and activity properly recorded. In addition, two current controls are being revised. First, the CEO, CFO and Director of Development will meet throughout the year to review contribution activity to ensure proper recording and classification within the accounting records. Second, the current control providing for quarterly review of program service billing activity will be increased to a monthly review by the CFO.

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

2019-02 Procurement policy

Criteria:

Part 200 of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance) section 200.67 establishes a threshold for micro purchases, whereby purchases below the threshold can be awarded without soliciting competitive price quotations if the price is reasonable. For 2019 that threshold was \$10,000.

Condition:

The procurement policy for Easter Seals of Greater Houston states a micro purchase threshold of \$15,000 which is greater than the threshold allowed.

Cause:

Easter Seals of Greater Houston management believed it had been granted a higher threshold by the State pass-thru agency of its major program based on conflicting language in the State statutes.

Effect:

The higher threshold could have created a situation whereby Easter Seals would not have been in compliance with the procurement provisions of the Uniform Guidance. However the nature of the expenditures charged to the federal and non-federal grants are such that there are few purchases greater than \$10,000. Thus, no compliance findings or questioned costs were noted.

Recommendation:

Easter Seals of Greater Houston, Inc. should revise its procurement policy with respect to the micro purchase threshold to align with the Uniform Guidance amount of \$10,000 and develop procedures to ensure that procurement policies are routinely verified for compliance with federal and non-federal grantor requirements.

Views of Responsible Officials and Planned Corrective Actions:

Easter Seals Procurement Policy was not updated correctly for changes to thresholds of micro purchases. The Procurement Policy has been updated to include the January 2020 changes to the micro purchase threshold of \$10,000 and small purchase threshold of \$250,000 (the simplified acquisition threshold). Management will perform a retroactive review of expenditures subject to Uniform Guidance for fiscal year 2020 to ensure compliance is properly documented for any purchases exceeding the updated thresholds.

**EASTER SEALS OF GREATER HOUSTON, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding 2018-1: Reporting

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.

Recommendation:

The auditor recommended the implementation of a control process to ensure the due dates for all required filings are met.

Current Status:

Reports for the year ended December 31, 2018 were submitted timely in accordance with the requirements under 2 CFR section 200.512 (a). Internally, Easter Seals of Greater Houston, Inc. now requires the audit be filed with the Federal Audit Clearinghouse within one week following receipt of reports from the auditors. Following a change in management over financial operations, a calendar is being developed to show all monthly, quarterly and annual submission deadlines to ensure compliance with requirements.

Finding 2019-01

Name of Contact Person: Elise Hough, CEO

Corrective Action:

A process has been developed whereby the CEO and CFO perform regular reviews of grant activity to ensure copies of all agreements have been provided and activity properly recorded. In addition, two current controls are being revised. First, the CEO, CFO and Director of Development will meet throughout the year to review contribution activity to ensure proper recording and classification within the accounting records. Second, the current control providing for quarterly review of program service billing activity will be increased to a monthly review by the CFO.

Proposed Completion Date: December 2020

Finding 2019-02

Name of Contact Person: Elise Hough, CEO

Corrective Action:

Easter Seals Procurement Policy was not updated correctly for changes to thresholds of micro purchases. The Procurement Policy has been updated to include the January 2020 changes to the micro purchase threshold of \$10,000 and small purchase threshold of \$250,000 (the simplified acquisition threshold). Management will perform a retroactive review of expenditures subject to Uniform Guidance for fiscal year 2020 to ensure compliance is properly documented for any purchases exceeding the updated thresholds.

Proposed Completion Date: December 2020

**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, 2019, 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 July 24, 2020.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described as item 2019-01 in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

ESGH's response to the internal control over financial reporting 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 consideration of internal control 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.

A handwritten signature in red ink that reads "Harper & Pearson Company, P.C." The signature is written in a cursive, flowing style.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
July 24, 2020

**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, 2019. 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, 2019.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-02, that we consider to be a significant deficiency.

ESGH's response to the internal control over compliance findings 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 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.



HARPER & PEARSON COMPANY, P.C.

Houston, Texas
September 17, 2020