

EASTER SEALS TENNESSEE, INC.

FINANCIAL STATEMENTS

August 31, 2016 and 2015

EASTER SEALS TENNESSEE, INC.

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**EASTER SEALS TENNESSEE, INC.
ROSTER OF BOARD OF DIRECTORS AND
EXECUTIVE STAFF
As of August 31, 2016**

Board of Directors

John Pfeiffer
Chuck Mataya
Jeff Bridges
Blake Estes
Mike Campbell
Terry Cobb
Fred Dowling
Lee Molette
Glenn Rose
Ruby Wildridge
Steve Zimmerman

Chairman
Vice Chairman
Treasurer
Secretary
Board Member
Board Member
Board Member
Board Member
Board Member
Board Member
Board Member

Executive Staff

Tim Ryerson
Christy Cochran
Cathy Breland

Susan Brown
Gay Bruner
Jayme Harrison
Lou Sullivan

President and CEO
VP of Operations
Director of Development &
Special Events
Chief Financial Officer
Director of Camping & Respite
Director of Human Resources
Director of Programs & Services



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Easter Seals Tennessee, Inc.
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Easter Seals Tennessee, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Tennessee, Inc. as of August 31, 2016 and 2015, 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 of America.

Other Matters

Other Information

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 awards and state financial assistance 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 of America. 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 November 14, 2016, on our consideration of Easter Seals Tennessee, Inc.'s internal control over financial reporting and on 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 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 Easter Seals Tennessee, Inc.'s internal control over financial reporting and compliance.

Fraser, Dea + Hand PLLC

Nashville, Tennessee
November 14, 2016

EASTER SEALS TENNESSEE, INC.
STATEMENTS OF FINANCIAL POSITION
August 31, 2016 and 2015

| | Assets | 2016 | 2015 |
|--|---------------|---------------------|---------------------|
| Current assets: | | | |
| Cash and cash equivalents | | \$ 197,233 | \$ 202,422 |
| Accounts receivable | | 742,249 | 736,609 |
| Prepaid expenses and other | | 63,106 | 74,054 |
| Total current assets | | 1,002,588 | 1,013,085 |
| Property and equipment, net | | 258,310 | 344,708 |
| Beneficial interest in assets at | | | |
| Community Foundation of Middle Tennessee | | 13,947 | 13,947 |
| Total assets | | <u>\$ 1,274,845</u> | <u>\$ 1,371,740</u> |
| Liabilities and Net Assets | | | |
| Current liabilities: | | | |
| Accounts payable | | \$ 58,439 | \$ 67,514 |
| Accrued expenses | | 365,494 | 348,091 |
| Advanced payments - State of Tennessee | | 240,000 | 360,000 |
| Notes payable, current | | 36,336 | 38,592 |
| Total current liabilities | | 700,269 | 814,197 |
| Advanced payments - State of Tennessee, | | | |
| net of current portion | | 91,066 | 276,066 |
| Notes payable, net of current portion | | 97,364 | 133,700 |
| Total liabilities | | 888,699 | 1,223,963 |
| Net assets: | | | |
| Unrestricted | | | |
| Undesignated | | 357,149 | 133,830 |
| Designated for endowment | | 12,783 | 12,783 |
| Total unrestricted net assets | | 369,932 | 146,613 |
| Temporarily restricted | | 15,050 | - |
| Permanently restricted | | 1,164 | 1,164 |
| Total net assets | | 386,146 | 147,777 |
| Total liabilities and net assets | | <u>\$ 1,274,845</u> | <u>\$ 1,371,740</u> |

See accompanying notes.

EASTER SEALS TENNESSEE, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended August 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Change in unrestricted net assets: | | |
| Public support and revenue: | | |
| Public support: | | |
| Contributions (includes in-kind of \$19,515 in 2016) | \$ 170,423 | \$ 133,901 |
| Special events, net of event costs of \$37,865 and \$31,381, respectively | 64,550 | 87,520 |
| Total public support | <u>234,973</u> | <u>221,421</u> |
| Revenue: | | |
| Government fees and grants | 6,153,871 | 6,161,326 |
| Contract services | 489,340 | 534,642 |
| Camp fees | 107,310 | 102,857 |
| Other revenue | 4,554 | - |
| Gain on sale of property and equipment | 800 | 417 |
| Total revenue | <u>6,755,875</u> | <u>6,799,242</u> |
| Total public support and revenue | <u>6,990,848</u> | <u>7,020,663</u> |
| Expenses: | | |
| Program services: | | |
| Direct services | 6,169,914 | 6,163,546 |
| Public health education | 17,384 | 17,406 |
| Total program services | <u>6,187,298</u> | <u>6,180,952</u> |
| Supporting services: | | |
| Management and general | 399,049 | 380,550 |
| Fundraising | 128,999 | 136,497 |
| Total supporting services | <u>528,048</u> | <u>517,047</u> |
| National program fee | 52,183 | 48,658 |
| Total expenses | <u>6,767,529</u> | <u>6,746,657</u> |
| Change in unrestricted net assets | <u>223,319</u> | <u>274,006</u> |
| Change in temporarily restricted net assets: | | |
| Temporarily restricted contributions | 15,050 | - |
| Change in temporarily restricted net assets | <u>15,050</u> | <u>-</u> |
| Change in permanently restricted net assets: | | |
| Permanently restricted contributions | - | 1,164 |
| Change in permanently restricted net assets | <u>-</u> | <u>1,164</u> |
| Change in net assets | 238,369 | 275,170 |
| Net assets (deficit) at beginning of year | 147,777 | (127,393) |
| Net assets at end of year | <u>\$ 386,146</u> | <u>\$ 147,777</u> |

See accompanying notes.

EASTER SEALS TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended August 31, 2016

| | Program Services | | Management and | | Supporting Services | | National Program Fee | Total Expenses |
|---------------------------------------|------------------|-------------------------|----------------|------------|---------------------|------------|----------------------|----------------|
| | Direct Services | Public Health Education | Total | General | Fundraising | Total | | |
| Salaries and related expenses | \$ 5,100,159 | \$ 15,348 | \$ 5,115,507 | \$ 234,319 | \$ 110,356 | \$ 344,675 | \$ - | \$ 5,460,182 |
| Occupancy | 168,042 | - | 168,042 | 72,852 | - | 72,852 | - | 240,894 |
| Insurance | 218,470 | 657 | 219,127 | 5,927 | 2,776 | 8,703 | - | 227,830 |
| Supplies | 212,811 | - | 212,811 | 1,931 | 1,141 | 3,072 | - | 215,883 |
| Professional fees | 159,852 | 481 | 160,333 | 53,287 | 2,256 | 55,543 | - | 215,876 |
| Travel and transportation | 119,051 | 358 | 119,409 | 4,732 | 193 | 4,925 | - | 124,334 |
| Depreciation | 95,036 | 286 | 95,322 | 7,414 | 3,177 | 10,591 | - | 105,913 |
| National program fee | - | - | - | - | - | - | 52,183 | 52,183 |
| Telephone | 36,646 | 110 | 36,756 | 3,710 | 671 | 4,381 | - | 41,137 |
| Rental and maintenance of equipment | 20,552 | 62 | 20,614 | 1,555 | 1,239 | 2,794 | - | 23,408 |
| Membership and support payments | 12,276 | - | 12,276 | 3,572 | 618 | 4,190 | - | 16,466 |
| Utilities | 15,588 | 47 | 15,635 | - | - | - | - | 15,635 |
| Conferences, conventions and meetings | 5,852 | 18 | 5,870 | 3,187 | 1,439 | 4,626 | - | 10,496 |
| Postage and shipping | 957 | 3 | 960 | 1,599 | 3,253 | 4,852 | - | 5,812 |
| Building and grounds maintenance | 3,571 | 11 | 3,582 | 1,005 | - | 1,005 | - | 4,587 |
| Miscellaneous | - | - | - | 2,728 | - | 2,728 | - | 2,728 |
| Printing and publications | 138 | - | 138 | 648 | 1,880 | 2,528 | - | 2,666 |
| Advertising | 913 | 3 | 916 | - | - | - | - | 916 |
| Interest | - | - | - | 583 | - | 583 | - | 583 |
| Total expenses | \$ 6,169,914 | \$ 17,384 | \$ 6,187,298 | \$ 399,049 | \$ 128,999 | \$ 528,048 | \$ 52,183 | \$ 6,767,529 |

See accompanying notes.

EASTER SEALS TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended August 31, 2015

| | Program Services | | Management and | | Supporting Services | | National Program Fee | Total Expenses |
|---------------------------------------|------------------|-------------------------|----------------|------------|---------------------|------------|----------------------|----------------|
| | Direct Services | Public Health Education | Total | General | Fundraising | Total | | |
| Salaries and related expenses | \$ 5,101,251 | \$ 15,350 | \$ 5,116,601 | \$ 222,397 | \$ 119,153 | \$ 341,550 | \$ - | \$ 5,458,151 |
| Occupancy | 166,754 | - | 166,754 | 78,079 | - | 78,079 | - | 244,833 |
| Insurance | 196,902 | 592 | 197,494 | 4,072 | 2,036 | 6,108 | - | 203,602 |
| Supplies | 200,304 | - | 200,304 | 2,367 | 575 | 2,942 | - | 203,246 |
| Professional fees | 150,868 | 454 | 151,322 | 49,486 | 1,859 | 51,345 | - | 202,667 |
| Travel and transportation | 146,047 | 439 | 146,486 | 3,538 | 299 | 3,837 | - | 150,323 |
| Depreciation | 100,093 | 301 | 100,394 | 7,808 | 3,346 | 11,154 | - | 111,548 |
| National program fee | - | - | - | - | - | - | 48,658 | 48,658 |
| Telephone | 36,004 | 108 | 36,112 | 3,495 | 726 | 4,221 | - | 40,333 |
| Rental and maintenance of equipment | 17,602 | 53 | 17,655 | 1,683 | 1,431 | 3,114 | - | 20,769 |
| Utilities | 16,849 | 51 | 16,900 | - | - | - | - | 16,900 |
| Membership and support payments | 10,802 | - | 10,802 | 1,540 | 956 | 2,496 | - | 13,298 |
| Conferences, conventions and meetings | 10,586 | 32 | 10,618 | 1,313 | 58 | 1,371 | - | 11,989 |
| Postage and shipping | 1,900 | 6 | 1,906 | 2,888 | 3,872 | 6,760 | - | 8,666 |
| Building and grounds maintenance | 3,610 | 11 | 3,621 | - | - | - | - | 3,621 |
| Printing and publications | 297 | 1 | 298 | 595 | 2,186 | 2,781 | - | 3,079 |
| Advertising | 2,579 | 8 | 2,587 | - | - | - | - | 2,587 |
| Miscellaneous | 400 | - | 400 | 1,289 | - | 1,289 | - | 1,689 |
| Specific assistance | 698 | - | 698 | - | - | - | - | 698 |
| Total expenses | \$ 6,163,546 | \$ 17,406 | \$ 6,180,952 | \$ 380,550 | \$ 136,497 | \$ 517,047 | \$ 48,658 | \$ 6,746,657 |

See accompanying notes.

EASTER SEALS TENNESSEE, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|--------------------------|--------------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 238,369 | \$ 275,170 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 105,913 | 111,548 |
| Gain on disposal of property and equipment | (800) | (417) |
| Donated property and equipment | (19,515) | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (5,640) | (73,955) |
| Prepaid expenses and other | 10,948 | (2,142) |
| Beneficial interest in assets held by others | - | (13,947) |
| Accounts payable | (9,075) | 22,398 |
| Accrued expenses | 17,403 | 33,854 |
| Advanced payments - State of Tennessee | (305,000) | (360,000) |
| Net cash provided by (used in) operating activities | <u>32,603</u> | <u>(7,491)</u> |
| Cash flows from investing activities: | | |
| Net proceeds from disposal of property and equipment | 800 | 600 |
| Purchases of property and equipment | <u>-</u> | <u>(105,987)</u> |
| Net cash provided by (used in) investing activities | <u>800</u> | <u>(105,387)</u> |
| Cash flows from financing activities: | | |
| Payments on notes payable | (38,592) | (31,744) |
| Draws on line of credit | 1,953,000 | 120,000 |
| Repayments on line of credit | <u>(1,953,000)</u> | <u>(120,000)</u> |
| Net cash used in financing activities | <u>(38,592)</u> | <u>(31,744)</u> |
| Net decrease in cash and cash equivalents | (5,189) | (144,622) |
| Cash and cash equivalents at beginning of year | <u>202,422</u> | <u>347,044</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 197,233</u></u> | <u><u>\$ 202,422</u></u> |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | <u>\$ 583</u> | <u>\$ -</u> |
| Non-cash investing and financing activity: | | |
| Notes payable incurred due to purchase of property and equipment | <u><u>\$ -</u></u> | <u><u>\$ 50,644</u></u> |
| Donated property and equipment | <u><u>\$ 19,515</u></u> | <u><u>\$ -</u></u> |

See accompanying notes.

EASTER SEALS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2016 and 2015

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Easter Seals Tennessee, Inc. (“Easter Seals”) is a not-for-profit organization organized in Nashville, Tennessee in 1923. Easter Seals provides programs and services to children and adults with disabilities throughout Tennessee.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Easter Seals and changes therein are classified and reported as follows:

Unrestricted net assets:

Undesignated – net assets that are not subject to donor-imposed stipulations or designated by Easter Seals’ board of directors.

Designated – net assets designated by Easter Seals’ board of directors for particular purposes, presently designated by the board for endowment.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met, either by actions of Easter Seals and/or the passage of time. At June 30, 2016, temporarily restricted net assets consisted of \$15,050 of contributions for camp scholarships.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by Easter Seals. Generally, donors of these assets may permit Easter Seals to use all or part of the income earned for general or specific purposes. Permanently restricted net assets totaled \$1,164 at August 31, 2016 and 2015 and are restricted for endowment.

Cash and Cash Equivalents

For purposes of the statements of cash flows, Easter Seals considers all cash funds, cash bank accounts and highly liquid debt instruments with an original maturity when purchased of three months or less to be cash and cash equivalents.

Accounts Receivable

Accounts receivable are considered fully collectible. Accordingly, no allowance for doubtful accounts has been provided.

EASTER SEALS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
August 31, 2016 and 2015

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Property and Equipment

Easter Seals generally capitalizes an asset if its life is estimated to be one year or greater and the cost is \$1,000 or greater. Property and equipment are recorded at cost when purchased or at estimated fair value as of the date contributed. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets.

Income Taxes

Easter Seals is exempt from federal and state income taxes under section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, no provision for income taxes has been made.

Easter Seals follows Financial Accounting Standards Board Accounting Standards Codification guidance that clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Easter Seals has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include years ended August 31, 2013 through August 31, 2016.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Contributions

Contributions are recognized when the donor makes a promise to give to Easter Seals that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restrictions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

EASTER SEALS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
August 31, 2016 and 2015

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Donated Services

The services of volunteer workers are not assigned a value as such services do not generally meet the criteria for recognition. However, Easter Seals uses the services of volunteers in carrying out its program efforts. The donations of professional services are recorded at fair market value as gifts-in-kind, if a measurable basis of the value exists. There were no such donations in fiscal 2016 and 2015.

Subsequent Events

Easter Seals evaluated subsequent events through November 14, 2016, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 2 – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at August 31:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------------|-------------------|-------------------|
| Accounts receivable | \$ 227,174 | \$ 190,956 |
| Fees receivable from state agencies | <u>515,075</u> | <u>545,653</u> |
| Total accounts receivable | <u>\$ 742,249</u> | <u>\$ 736,609</u> |

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at August 31:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|-------------------|-------------------|
| Leasehold improvements | \$ 6,624 | \$ 6,624 |
| Vehicles | 841,594 | 832,079 |
| Equipment | <u>200,621</u> | <u>200,621</u> |
| | 1,048,839 | 1,039,324 |
| Less accumulated depreciation | <u>(790,529)</u> | <u>(694,616)</u> |
| Net property and equipment | <u>\$ 258,310</u> | <u>\$ 344,708</u> |

Depreciation expense totaled \$105,913 and \$111,548 for the years ended August 31, 2016 and 2015, respectively.

EASTER SEALS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
August 31, 2016 and 2015

NOTE 4 – BENEFICIAL INTEREST IN ASSETS AT COMMUNITY FOUNDATION OF MIDDLE TENNESSEE

The Community Foundation of Middle Tennessee (the “Community Foundation”) maintains agency investments on behalf of Easter Seals. Under the terms of the agreement, the Community Foundation has variance power and is the legal owner of the investments. However, Easter Seals is the beneficiary of the fund and receives distributions of income, subject to the Community Foundation’s spending policy. The investments resulted from unrestricted amounts transferred by Easter Seals to the Community Foundation, in addition to other donor contributions and earnings. Easter Seals has recorded the related asset “beneficial interest in assets at Community Foundation of Middle Tennessee” in the accompanying statements of financial position totaling \$13,947 at August 31, 2016 and 2015.

NOTE 5 – ADVANCED PAYMENTS – STATE OF TENNESSEE

Advanced payments – State of Tennessee (“State”) totaled \$331,066 and \$636,066 at August 31, 2016 and 2015, respectively, and is currently payable in monthly installments of \$20,000 as agreed upon by Easter Seals and the State. Monthly installments are subject to change based on future agreements between Easter Seals and the State. The amount to be recouped cannot exceed the profit derived from the provision of the services covered under the provider agreement.

NOTE 6 – NOTES PAYABLE

Notes payable is comprised of the following at August 31:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Note payable, due in 72 monthly installments beginning June 2013, interest at 0% per annum. | \$ 32,922 | \$ 44,946 |
| Note payable, due in 36 monthly installments beginning May 2013, interest at 0% per annum. | - | 2,256 |
| Note payable, due in 72 monthly installments beginning April 2014, interest at 0% per annum. | 42,942 | 54,966 |
| Note payable, due in 72 monthly installments beginning October 2014, interest at 0% per annum. | 15,640 | 19,480 |
| Note payable, due in 72 monthly installments beginning July 2015, interest at 0% per annum. | <u>42,196</u> | <u>50,644</u> |
| | <u>\$ 133,700</u> | <u>\$ 172,292</u> |

EASTER SEALS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
August 31, 2016 and 2015

NOTE 6 – NOTES PAYABLE (Continued)

The following represents principal maturities of notes payable as of August 31, 2016:

| Year ending <u>August 31,</u> | |
|----------------------------------|------------------|
| 2017 | \$ 36,336 |
| 2018 | 36,336 |
| 2019 | 33,186 |
| 2020 | 19,158 |
| 2021 | <u>8,684</u> |
| Total principal maturities | 133,700 |
| Less current portion | <u>(36,336)</u> |
| Long-term obligations | <u>\$ 97,364</u> |

NOTE 7 – LINE OF CREDIT

At August 31, 2016 and 2015, the Organization had available a revolving line-of-credit with a bank, with interest rates at the prime rate plus 0.50%, not to be less than 5.00%. During 2016, the arrangement was extended through April 15, 2017. The agreement provides for short-term borrowings of up to \$250,000 with interest payable monthly. The line-of-credit is secured by all assets of Easter Seals, primarily accounts receivable and property. The Organization had no outstanding borrowings under this agreement at August 31, 2016 or 2015.

NOTE 8 – ALLOCATION OF FUNCTIONAL EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among program and supporting services based on estimates made by management.

NOTE 9 – CONCENTRATIONS

Easter Seals maintains its cash in bank accounts that at times may exceed federally insured limits. Easter Seals has not experienced any losses in such accounts. Deposits are insured by the FDIC up to statutory limits. Management believes Easter Seals is not exposed to any significant credit risk regarding cash balances.

EASTER SEALS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
August 31, 2016 and 2015

NOTE 9 – CONCENTRATIONS (Continued)

Easter Seals receives a substantial amount of its support from governmental grants and contracts. During fiscal 2016 and 2015, Easter Seals received approximately 90% of its support and revenue from government grants and contracts. A significant reduction in the level of this support, if this were to occur, could have an adverse impact on Easter Seals' programs and services. At August 31, 2016 and 2015, Easter Seals had \$515,075 and \$545,653, respectively, due in fees receivable from government entities.

NOTE 10 – EMPLOYEE BENEFIT PLAN

During 2003, Easter Seals implemented a defined contribution retirement plan for the benefit of all employees. Employees are allowed to make contributions on a pre-tax basis. The plan provides for Easter Seals to make a discretionary contribution to the plan. No employer contributions were made to the plan during 2016 or 2015.

NOTE 11 – LEASE COMMITMENTS

Easter Seals leases certain buildings and equipment under noncancelable lease agreements, all of which are considered operating leases.

During October 2014, Easter Seals entered into an operating lease for its administrative offices. The lease provides for monthly payments ranging from \$5,650 to \$6,236 over a 60 month period.

Minimum payments for these lease commitments are as follows:

| <u>Year ending</u> <u>August 31,</u> | |
|---|-------------------|
| 2017 | \$ 78,228 |
| 2018 | 79,998 |
| 2019 | 81,812 |
| 2020 | 26,136 |
| 2021 | <u>6,187</u> |
| | <u>\$ 272,361</u> |

Rent expense under all operating leases amounted to \$255,494 and \$259,764 for the years ended August 31, 2016 and 2015, respectively.

EASTER SEALS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
August 31, 2016 and 2015

NOTE 12 – CONTINGENCIES

Easter Seals is subject to various claims and legal actions which arise in the ordinary course of business. Easter Seals has professional liability insurance to protect against such claims or legal actions on a claims-made basis. In the opinion of management, the ultimate resolution of any claims will be adequately covered by the insurance and will not have a material adverse effect on Easter Seals' financial position or results of operations.

SUPPLEMENTAL INFORMATION

EASTER SEALS TENNESSEE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
For the Year Ended August 31, 2016

| Grant Description | CFDA Number | Contract Number | Receivable August 31, 2015 | Cash Receipts | Expenditures | Receivable August 31, 2016 |
|--|-------------|-----------------|----------------------------|------------------|------------------|----------------------------|
| Federal Awards: | | | | | | |
| None | | | | | | |
| State Financial Assistance: | | | | | | |
| State of Tennessee, Department of Health | | | | | | |
| Traumatic Brain Injury Program | n/a | GR-16-45153-01 | - | 18,100 | 66,100 | 48,000 |
| Total State of Tennessee Department of Health | | | - | 18,100 | 66,100 | 48,000 |
| Total State Financial Assistance | | | - | 18,100 | 66,100 | 48,000 |
| Total Federal Awards and State Financial Assistance | | | \$ - | \$ 18,100 | \$ 66,100 | \$ 48,000 |

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of Easter Seals Tennessee, Inc. under programs of the federal and state governments for the year ended August 31, 2016. The schedule is presented using the accrual basis of accounting. Grant revenues are recognized when the related program expenditures are incurred.



**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 of
Easter Seals Tennessee, Inc.
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Easter Seals Tennessee, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Easter Seals Tennessee, Inc.'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 Easter Seals Tennessee, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the entity'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 Easter Seals Tennessee, Inc.'s financial statements are free from 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*.

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 the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Franco, Dan + Hand, PLLC

Nashville, Tennessee
November 14, 2016

EASTER SEALS TENNESSEE, INC.
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
AUGUST 31, 2016

None.