

**EASTER SEALS TENNESSEE, INC.**

**FINANCIAL STATEMENTS**

**August 31, 2011**

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**EASTER SEALS TENNESSEE, INC.**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Easter Seals Tennessee, Inc. (a not-for-profit organization) as of August 31, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Frasier, Dean & Howard, PLLC*

November 16, 2011

**EASTER SEALS TENNESSEE, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**August 31, 2011**

**Assets**

Current assets:	
Cash and cash equivalents	\$ 39,010
Accounts receivable	367,743
Prepaid expenses and other	<u>33,487</u>
Total current assets	440,240
Property and equipment, net	<u>112,011</u>
Total assets	<u><u>\$ 552,251</u></u>

**Liabilities and Net Assets (Deficit)**

Current liabilities:	
Accounts payable	\$ 95,184
Accrued expenses	229,593
Advanced payments - State of Tennessee	132,000
Notes payable, current	<u>56,400</u>
Total current liabilities	513,177
Advanced payments - State of Tennessee, net of current portion	1,691,066
Accrued expenses, net of current portion	50,000
Notes payable, net of current portion	<u>28,552</u>
Total liabilities	<u>2,282,795</u>
Net assets (deficit):	
Unrestricted	<u>(1,730,544)</u>
Total net assets (deficit)	<u>(1,730,544)</u>
Total liabilities and net assets (deficit)	<u><u>\$ 552,251</u></u>

See accompanying notes.

**EASTER SEALS TENNESSEE, INC.**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended August 31, 2011**

Public support and revenue:

Public support:	
Contributions	\$ 167,827
Special events, net of event costs of \$30,192	71,934
	<u>239,761</u>
Total public support	

Revenue:

Government fees and grants	3,834,780
Contract services	87,359
Camp rental	66,155
Gain on sale of fixed assets	2,381
Other	2,120
	<u>3,992,795</u>

Total revenue

3,992,795

Total public support and revenue

4,232,556

Expenses:

Program services:	
Direct services	3,554,385
Public health education	10,081
	<u>3,564,466</u>
Total program services	

Supporting services:

Management and general	350,454
Fundraising	114,169
	<u>464,623</u>
Total supporting services	

National program fee

50,000

Total expenses

4,079,089

Change in net assets (deficit)

153,467

Net assets (deficit) at beginning of year

(1,884,011)

Net assets (deficit) at end of year

\$ (1,730,544)

See accompanying notes.

**EASTER SEALS TENNESSEE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended August 31, 2011**

	Program Services			Management and		Supporting Services		National Program Fee	Total Expenses
	Direct Services	Public Health Education	Total	General	Fundraising	Total			
Salaries and related expenses	\$ 2,889,445	\$ 8,694	\$ 2,898,139	\$ 193,708	\$ 100,071	\$ 293,779	\$ -	\$ 3,191,918	
Occupancy	119,428	-	119,428	58,910	-	58,910	-	178,338	
Travel and transportation	144,812	436	145,248	3,074	1,000	4,074	-	149,322	
Professional fees	80,031	241	80,272	64,032	2,193	66,225	-	146,497	
Insurance	87,514	263	87,777	4,969	1,682	6,651	-	94,428	
Supplies	75,635	-	75,635	2,487	632	3,119	-	78,754	
Depreciation	64,270	193	64,463	5,014	2,149	7,163	-	71,626	
National program fee	-	-	-	-	-	-	50,000	50,000	
Telephone	36,727	111	36,838	4,042	854	4,896	-	41,734	
Rental and maintenance of equipment	18,822	57	18,879	3,029	1,690	4,719	-	23,598	
Utilities	19,093	57	19,150	-	-	-	-	19,150	
Miscellaneous	622	-	622	2,244	-	2,244	-	2,866	
Conferences, conventions and meetings	6,683	20	6,703	1,870	-	1,870	-	8,573	
Membership and support payments	3,335	-	3,335	3,306	420	3,726	-	7,061	
Postage and shipping	574	2	576	2,245	2,684	4,929	-	5,505	
Specific assistance	5,049	-	5,049	-	-	-	-	5,049	
Advertising	813	2	815	1,422	-	1,422	-	2,237	
Building and grounds maintenance	1,221	4	1,225	-	-	-	-	1,225	
Printing and publications	311	1	312	102	794	896	-	1,208	
Total functional expenses	\$ 3,554,385	\$ 10,081	\$ 3,564,466	\$ 350,454	\$ 114,169	\$ 464,623	\$ 50,000	\$ 4,079,089	

See accompanying notes.

**EASTER SEALS TENNESSEE, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended August 31, 2011**

Cash flows from operating activities:	
Change in net assets	\$ 153,467
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	71,626
Gain on disposal of property and equipment	(2,381)
Changes in operating assets and liabilities:	
Accounts receivable	(31,479)
Prepaid expenses and other	(8,889)
Accounts payable	(233,686)
Accrued expenses	5,948
Advanced payments - State of Tennessee	(160,000)
Net cash used in operating activities	<u>(205,394)</u>
Cash flows from investing activities:	
Net proceeds from disposal of property and equipment	14,427
Purchases of property and equipment	<u>(16,738)</u>
Net cash used in investing activities	<u>(2,311)</u>
Cash flows from financing activities:	
Payments on notes payable	<u>(60,798)</u>
Net cash used in financing activities	<u>(60,798)</u>
Net decrease in cash and cash equivalents	(268,503)
Cash and cash equivalents at beginning of year	<u>307,513</u>
Cash and cash equivalents at end of year	<u><u>\$ 39,010</u></u>
Supplemental disclosure of cash flow information:	
Interest paid	<u><u>\$ 4,122</u></u>
Non-cash investing and financing activity:	
Accounts payable reduced through return of property and equipment	<u><u>\$ 35,238</u></u>

See accompanying notes.

**EASTER SEALS TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2011**

**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, net assets of Easter Seals and changes therein are classified and reported as follows:

Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.

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. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Easter Seals currently has no temporarily restricted net assets.

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. Easter Seals currently has no permanently restricted net assets.

**Cash and Cash Equivalents**

For purposes of the statement 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.

**Property and Equipment**

Easter Seals generally capitalizes an asset if its life is estimated to be one year or greater and the cost is \$500 or greater. Property and equipment are recorded at cost when purchased or at fair value as of the date contributed. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets.



**EASTER SEALS TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**August 31, 2011**

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

**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 (“FASB ASC”) 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. This guidance must be applied to all existing tax positions upon initial adoption. 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, 2008 through August 31, 2011.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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, 2011**

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

**Donated Assets**

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Easter Seals reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Easter Seals reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**Subsequent Events**

Easter Seals evaluated subsequent events through November 16, 2011, 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, 2011:

Accounts receivable	\$ 60,005
Fees receivable from state agencies	<u>307,738</u>
Total accounts receivable	<u>\$ 367,743</u>

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at August 31, 2011:

Leasehold improvements	\$ 6,624
Vehicles	571,670
Equipment	<u>163,626</u>
	741,920
Less accumulated depreciation	<u>(629,909)</u>
Net property and equipment	<u>\$ 112,011</u>

**EASTER SEALS TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**August 31, 2011**

**NOTE 3 – PROPERTY AND EQUIPMENT (Continued)**

Depreciation expense totaled \$71,626 for the year ended August 31, 2011.

Fully depreciated assets amounted to approximately \$388,000 at August 31, 2011.

**NOTE 4 – ADVANCED PAYMENTS – STATE OF TENNESSEE**

Advanced payments – State of Tennessee (“State”) totaled \$1,823,066 at August 31, 2011 and is currently payable in monthly installments of \$11,000 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 5 – NOTES PAYABLE**

Notes payable is comprised of the following at August 31, 2011:

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Note payable, due in 30 monthly installments beginning October 2010, interest at 4.25% per annum, secured by vehicles.	\$ 77,752
Note payable, due in 36 monthly installments beginning October 2010, interest at 3.5% per annum, secured by a vehicle.	<u>7,200</u>
	<u>\$ 84,952</u>

The following represents principal maturities of notes payable as of August 31, 2011:

Year ending	
<u>August 31,</u>	
2012	\$ 56,400
2013	<u>28,552</u>
	<u>\$ 84,952</u>

**NOTE 6 – ALLOCATION OF FUNCTIONAL EXPENSES**

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

**EASTER SEALS TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**August 31, 2011**

**NOTE 7 – CONCENTRATIONS**

Easter Seals receives a substantial amount of its support from governmental grants and contracts. During fiscal 2011, 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, 2011, Easter Seals had \$307,738 due in grants and fees receivable from government entities.

**NOTE 8 – EMPLOYEE BENEFIT PLANS**

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 2011.

**NOTE 9 – LEASE COMMITMENTS**

Easter Seals leases certain buildings and office equipment under noncancelable lease agreements, all of which are considered operating leases. Minimum payments for these lease commitments are as follows:

Year ending <u>August 31,</u>	
2012	\$ 146,058
2013	132,022
2014	122,592
2015	83,496
2016	<u>-</u>
	<u>\$ 484,168</u>

Rent expense amounted to \$199,072 for the year ended August 31, 2011.

**NOTE 10 – 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 such matters will be adequately covered by the insurance and will not have a material adverse effect on Easter Seals' financial position or results of operations.

**EASTER SEALS TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**August 31, 2011**

**NOTE 11 – AFFILIATE**

Easter Seals owned a membership interest in Easter Seals West Tennessee, LLC (“West”). West was formed in 2004 in connection with obtaining a credit facility secured by certain assets (primarily accounts receivable and equipment) related to Easter Seals West Tennessee operations. West operated as a single member limited liability company wholly owned by Easter Seals. During the year ended August 31, 2011, Easter Seals West Tennessee, LLC was terminated.

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