

EASTER SEALS TENNESSEE, INC.

FINANCIAL STATEMENTS

August 31, 2012 and 2011

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 statements of financial position of Easter Seals Tennessee, Inc. (a not-for-profit organization) as of August 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years 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 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 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 audits provide 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2012 on our consideration of Easter Seals Tennessee, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provision 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* and should be considered in assessing the results of our audit.

Frasier, Dean & Howard, PLLC

November 16, 2012

EASTER SEALS TENNESSEE, INC.
STATEMENTS OF FINANCIAL POSITION
August 31, 2012 and 2011

	Assets	2012	2011
Current assets:			
Cash and cash equivalents		\$ 205,197	\$ 39,010
Accounts receivable		436,823	367,743
Prepaid expenses and other		50,128	33,487
		<hr/>	<hr/>
Total current assets		692,148	440,240
Property and equipment, net		<hr/> 114,401	<hr/> 112,011
		<hr/>	<hr/>
Total assets		<u>\$ 806,549</u>	<u>\$ 552,251</u>
Liabilities and Net Assets (Deficit)			
Current liabilities:			
Accounts payable		\$ 60,296	\$ 95,184
Accrued expenses		259,906	229,593
Advanced payments - State of Tennessee		240,000	132,000
Line of credit		40,000	-
Notes payable, current		25,162	56,400
		<hr/>	<hr/>
Total current liabilities		625,364	513,177
Advanced payments - State of Tennessee, net of current portion		1,386,066	1,691,066
Accrued expenses, net of current portion		-	50,000
Notes payable, net of current portion		<hr/> -	<hr/> 28,552
		<hr/>	<hr/>
Total liabilities		2,011,430	2,282,795
Net assets (deficit):			
Unrestricted		<hr/> (1,204,881)	<hr/> (1,730,544)
		<hr/>	<hr/>
Total net assets (deficit)		(1,204,881)	(1,730,544)
		<hr/>	<hr/>
Total liabilities and net assets (deficit)		<u>\$ 806,549</u>	<u>\$ 552,251</u>

See accompanying notes.

EASTER SEALS TENNESSEE, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Public support and revenue:		
Public support:		
Contributions	\$ 208,241	\$ 167,827
Special events, net of event costs of \$37,571 and \$30,192	49,404	71,934
Total public support	<u>257,645</u>	<u>239,761</u>
Revenue:		
Government fees and grants	4,597,489	3,834,780
Camp rental	72,915	66,155
Contract services	50,466	87,359
Gain on sale of fixed assets	13,779	2,381
Other	11,107	2,120
Total revenue	<u>4,745,756</u>	<u>3,992,795</u>
Total public support and revenue	<u>5,003,401</u>	<u>4,232,556</u>
Expenses:		
Program services:		
Direct services	3,951,434	3,554,385
Public health education	11,247	10,081
Total program services	<u>3,962,681</u>	<u>3,564,466</u>
Supporting services:		
Management and general	334,069	350,454
Fundraising	130,988	114,169
Total supporting services	<u>465,057</u>	<u>464,623</u>
National program fee	<u>50,000</u>	<u>50,000</u>
Total expenses	<u>4,477,738</u>	<u>4,079,089</u>
Change in net assets (deficit)	525,663	153,467
Net assets (deficit) at beginning of year	<u>(1,730,544)</u>	<u>(1,884,011)</u>
Net assets (deficit) at end of year	<u>\$ (1,204,881)</u>	<u>\$ (1,730,544)</u>

See accompanying notes.

EASTER SEALS TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended August 31, 2012

	Program Services		Management and		Supporting Services		National Program Fee	Total Expenses
	Direct Services	Public Health Education	Total	General	Fundraising	Total		
Salaries and related expenses	\$ 3,242,723	\$ 9,757	\$ 3,252,480	\$ 202,725	\$ 113,900	\$ 316,625	\$ -	\$ 3,569,105
Travel and transportation	180,357	543	180,900	3,128	734	3,862	-	184,762
Occupancy	125,095	-	125,095	58,421	-	58,421	-	183,516
Professional fees	97,195	292	97,487	39,675	2,378	42,053	-	139,540
Insurance	91,089	274	91,363	4,912	1,965	6,877	-	98,240
Supplies	84,427	-	84,427	1,930	1,200	3,130	-	87,557
National program fee	-	-	-	-	-	-	50,000	50,000
Depreciation	43,629	131	43,760	3,404	1,459	4,863	-	48,623
Telephone	32,329	97	32,426	3,930	855	4,785	-	37,211
Rental and maintenance of equipment	18,083	54	18,137	2,506	1,644	4,150	-	22,287
Utilities	19,401	58	19,459	-	-	-	-	19,459
Conferences, conventions and meetings	6,541	20	6,561	660	35	695	-	7,256
Postage and shipping	1,003	3	1,006	2,280	3,136	5,416	-	6,422
Membership and support payments	3,453	-	3,453	1,509	846	2,355	-	5,808
Miscellaneous	182	-	182	5,373	-	5,373	-	5,555
Printing and publications	940	3	943	58	2,836	2,894	-	3,837
Interest	-	-	-	3,558	-	3,558	-	3,558
Advertising	2,569	8	2,577	-	-	-	-	2,577
Building and grounds maintenance	2,418	7	2,425	-	-	-	-	2,425
Total functional expenses	\$ 3,951,434	\$ 11,247	\$ 3,962,681	\$ 334,069	\$ 130,988	\$ 465,057	\$ 50,000	\$ 4,477,738

See accompanying notes.

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

	Program Services			Supporting Services			National Program Fee	Total Expenses
	Direct Services	Education	Health	Total	General and Management	Fundraising		
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.
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 525,663	\$ 153,467
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	48,623	71,626
Gain on disposal of property and equipment	(13,779)	(2,381)
Changes in operating assets and liabilities:		
Accounts receivable	(69,080)	(31,479)
Prepaid expenses and other	(16,641)	(8,889)
Accounts payable	(34,888)	(233,686)
Accrued expenses	(19,687)	5,948
Advanced payments - State of Tennessee	(197,000)	(160,000)
Net cash provided by (used in) operating activities	<u>223,211</u>	<u>(205,394)</u>
Cash flows from investing activities:		
Net proceeds from disposal of property and equipment	13,779	14,427
Purchases of property and equipment	(51,013)	(16,738)
Net cash used in investing activities	<u>(37,234)</u>	<u>(2,311)</u>
Cash flows from financing activities:		
Payments on notes payable	(59,790)	(60,798)
Draws on line of credit	100,000	-
Repayments on line of credit	(60,000)	-
Net cash used in financing activities	<u>(19,790)</u>	<u>(60,798)</u>
Net increase (decrease) in cash and cash equivalents	166,187	(268,503)
Cash and cash equivalents at beginning of year	39,010	307,513
Cash and cash equivalents at end of year	<u>\$ 205,197</u>	<u>\$ 39,010</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 3,558</u>	<u>\$ 4,122</u>
Non-cash investing and financing activity:		
Accounts payable reduced through return of property and equipment	<u>\$ -</u>	<u>\$ 35,238</u>

See accompanying notes.

EASTER SEALS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2012 and 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. 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 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.

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, 2012 and 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 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, 2009 through August 31, 2012.

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, 2012 and 2011

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 2012 and 2011.

Subsequent Events

Easter Seals evaluated subsequent events through November 16, 2012, 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>2012</u>	<u>2011</u>
Accounts receivable	\$ 8,370	\$ 60,005
Fees receivable from state agencies	<u>428,453</u>	<u>307,738</u>
Total accounts receivable	<u>\$ 436,823</u>	<u>\$ 367,743</u>

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at August 31:

	<u>2012</u>	<u>2011</u>
Leasehold improvements	\$ 6,624	\$ 6,624
Vehicles	545,081	571,670
Equipment	<u>187,719</u>	<u>163,626</u>
	739,424	741,920
Less accumulated depreciation	<u>(625,023)</u>	<u>(629,909)</u>
Net property and equipment	<u>\$ 114,401</u>	<u>\$ 112,011</u>

EASTER SEALS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
August 31, 2012 and 2011

NOTE 3 – PROPERTY AND EQUIPMENT (Continued)

Depreciation expense totaled \$48,623 and \$71,626 for the years ended August 31, 2012 and 2011, respectively.

NOTE 4 – ADVANCED PAYMENTS – STATE OF TENNESSEE

Advanced payments – State of Tennessee (“State”) totaled \$1,626,066 and \$1,823,066 at August 31, 2012 and 2011, 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 5 – NOTES PAYABLE

Notes payable is comprised of the following at August 31:

	<u>2012</u>	<u>2011</u>
Note payable, due in 30 monthly installments beginning October 2010, interest at 4.25% per annum, secured by vehicles.	\$ 25,162	\$ 77,752
Note payable, due in 36 monthly installments beginning October 2010, interest at 3.5% per annum, secured by a vehicle. Note paid in full during 2012.	<u>-</u>	<u>7,200</u>
	<u>\$ 25,162</u>	<u>\$ 84,952</u>

The following represents principal maturities of notes payable as of August 31, 2012:

Year ending August 31, 2013	<u>\$ 25,162</u>
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NOTE 6 – LINE OF CREDIT

During 2012, the Organization entered into a line-of-credit arrangement with a bank, with interest rates at the prime rate plus 0.50%, not to be less than 5.00%. The note evidencing the arrangement matures January 10, 2013. The agreement provides for short-term borrowings of up to \$100,000 with interest payable monthly. The line-of-credit is secured by all assets of the Organization, primarily accounts receivable and property. Amounts outstanding at August 31, 2012 totaled \$40,000.

EASTER SEALS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
August 31, 2012 and 2011

NOTE 7 – 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 8 – CONCENTRATIONS

Easter Seals receives a substantial amount of its support from governmental grants and contracts. During fiscal 2012 and 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, 2012 and 2011, Easter Seals had \$428,453 and \$307,738, respectively, due in grants and fees receivable from government entities.

NOTE 9 – 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 2012 or 2011.

NOTE 10 – 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>	
2013	\$ 132,022
2014	122,592
2015	<u>83,496</u>
	<u>\$ 338,110</u>

Rent expense amounted to \$202,074 and \$199,072 for the years ended August 31, 2012 and 2011, respectively.

EASTER SEALS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
August 31, 2012 and 2011

NOTE 11 – 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.