# EASTER SEALS JOLIET REGION, INC.

## FINANCIAL STATEMENTS

## YEARS ENDED AUGUST 31, 2016 AND 2015

CliftonLarsonAllen

**EASTER SEALS JOLIET REGION, INC.**
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**YEARS ENDED AUGUST 31, 2016 AND 2015**


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## INDEPENDENT AUDITORS' REPORT

Board of Directors
Easter Seals Joliet Region, Inc.
Joliet, Illinois

We have audited the accompanying financial statements of Easter Seals Joliet Region, Inc., which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities and changes in net assets, 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.

### *Auditors' 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. 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 auditors' 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.

Board of Directors
Easter Seals Joliet Region, Inc.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Easter Seals Joliet Region, 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.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Oak Brook, Illinois
November 22, 2016

**EASTER SEALS JOLIET REGION, INC.**
**STATEMENT OF FINANCIAL POSITION**
**AUGUST 31, 2016**

| | Operating | Land, Buildings, and Equipment | Endowment | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and Cash Equivalents | $ 425,059 | $ - | $ - | $ 425,059 |
| Investments | 1,423,561 | - | - | 1,423,561 |
| Accounts Receivable, Net | 801,761 | - | - | 801,761 |
| Prepaid Expenses and Other Assets | 122,859 | - | - | 122,859 |
| Total Current Assets | 2,773,240 | - | - | 2,773,240 |
| **NONCURRENT ASSETS** | | | | |
| Investments | - | - | 126,151 | 126,151 |
| Property and Equipment, Net | - | 5,279,071 | - | 5,279,071 |
| Total Noncurrent Assets | - | 5,279,071 | 126,151 | 5,405,222 |
| Total Assets | $ 2,773,240 | $ 5,279,071 | $ 126,151 | $ 8,178,462 |
| **LIABILITIES AND NET ASSETS** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts Payable and Accrued Expenses | $ 670,172 | $ - | $ - | $ 670,172 |
| Current Portion of Long-Term Debt | - | 109,085 | - | 109,085 |
| Deferred Revenue | 4,534 | - | - | 4,534 |
| Total Current Liabilities | 674,706 | 109,085 | - | 783,791 |
| **LONG-TERM DEBT, NET OF CURRENT PORTION** | - | 1,551,409 | - | 1,551,409 |
| Total Liabilities | 674,706 | 1,660,494 | - | 2,335,200 |
| **NET ASSETS** | | | | |
| Unrestricted: | | | | |
| Designated for Future Programs | 1,454,050 | - | - | 1,454,050 |
| Undesignated | 644,484 | 3,618,577 | - | 4,263,061 |
| Total Unrestricted | 2,098,534 | 3,618,577 | - | 5,717,111 |
| Temporarily Restricted | - | - | 16,151 | 16,151 |
| Permanently Restricted | - | - | 110,000 | 110,000 |
| Total Net Assets | 2,098,534 | 3,618,577 | 126,151 | 5,843,262 |
| Total Liabilities and Net Assets | $ 2,773,240 | $ 5,279,071 | $ 126,151 | $ 8,178,462 |

*See accompanying Notes to Financial Statements.*

# EASTER SEALS JOLIET REGION, INC.
# STATEMENT OF FINANCIAL POSITION
# AUGUST 31, 2015

| | Operating | Land, Buildings, and Equipment | Endowment | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and Cash Equivalents | $ 427,471 | $ - | $ - | $ 427,471 |
| Investments | 1,277,006 | - | - | 1,277,006 |
| Accounts Receivable, Net | 524,026 | - | - | 524,026 |
| Prepaid Expenses and Other Assets | 122,177 | - | - | 122,177 |
| Total Current Assets | 2,350,680 | - | - | 2,350,680 |
| **NONCURRENT ASSETS** | | | | |
| Investments | - | - | 107,478 | 107,478 |
| Property and Equipment, Net | - | 5,327,869 | - | 5,327,869 |
| Total Noncurrent Assets | - | 5,327,869 | 107,478 | 5,435,347 |
| Total Assets | $ 2,350,680 | $ 5,327,869 | $ 107,478 | $ 7,786,027 |
| **LIABILITIES AND NET ASSETS** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts Payable and Accrued Expenses | $ 686,434 | $ - | $ - | $ 686,434 |
| Current Portion of Long-Term Debt | - | 106,161 | - | 106,161 |
| Deferred Revenue | 4,657 | - | - | 4,657 |
| Total Current Liabilities | 691,091 | 106,161 | - | 797,252 |
| **LONG-TERM DEBT, NET OF CURRENT PORTION** | - | 1,655,413 | - | 1,655,413 |
| Total Liabilities | 691,091 | 1,761,574 | - | 2,452,665 |
| **NET ASSETS** | | | | |
| Unrestricted: | | | | |
| Designated for Future Programs | 1,322,107 | - | - | 1,322,107 |
| Undesignated | 337,482 | 3,566,295 | - | 3,903,777 |
| Total Unrestricted | 1,659,589 | 3,566,295 | - | 5,225,884 |
| Temporarily Restricted | - | - | 7,478 | 7,478 |
| Permanently Restricted | - | - | 100,000 | 100,000 |
| Total Net Assets | 1,659,589 | 3,566,295 | 107,478 | 5,333,362 |
| Total Liabilities and Net Assets | $ 2,350,680 | $ 5,327,869 | $ 107,478 | $ 7,786,027 |

*See accompanying Notes to Financial Statements.*

**EASTER SEALS JOLIET REGION, INC.**
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**
**YEAR ENDED AUGUST 31, 2016**

| | Operating | Land, Buildings, and Equipment | Endowment | Total |
|---|---|---|---|---|
| **UNRESTRICTED NET ASSETS** | | | | |
| Public Support and Revenue: | | | | |
| Support from General Public | $ 92,369 | $ 20,000 | $ - | $ 112,369 |
| Support from Foundations and Trust | 138,588 | 60,412 | - | 199,000 |
| Special Fundraising Events, Net | 293,714 | - | - | 293,714 |
| United Way Allocation | 122,786 | - | - | 122,786 |
| Government Service Fees | 5,677,014 | 14,765 | - | 5,691,779 |
| Government Grants | 467,650 | 110,034 | - | 577,684 |
| Program Service Fees | 2,560,933 | - | - | 2,560,933 |
| Investment Income | 89,127 | - | - | 89,127 |
| Contracted Services | 196,377 | - | - | 196,377 |
| Miscellaneous | 35,730 | - | - | 35,730 |
| Total Public Support and Revenue | 9,674,288 | 205,211 | - | 9,879,499 |
| **EXPENSES** | | | | |
| Program Services: | | | | |
| Direct Patient Services | 8,192,233 | 323,887 | - | 8,516,120 |
| Supporting Services: | | | | |
| Management and General | 681,753 | 13,279 | - | 695,032 |
| Fundraising | 138,868 | 2,823 | - | 141,691 |
| Total Program and Supporting Services Expense | 9,012,854 | 339,989 | - | 9,352,843 |
| Increase (Decrease) in Unrestricted Net Assets Before Other Items | 661,434 | (134,778) | - | 526,656 |
| **OTHER ITEMS** | | | | |
| Payments to National Organization | (39,126) | - | - | (39,126) |
| Gain on Sale of Property and Equipment | - | 3,697 | - | 3,697 |
| Transfers Between Funds | (183,363) | 183,363 | - | - |
| Increase in Unrestricted Net Assets | 438,945 | 52,282 | - | 491,227 |
| **TEMPORARILY RESTRICTED NET ASSETS** | | | | |
| Investment Income | - | - | 8,673 | 8,673 |
| Increase in Temporarily Restricted Net Assets | - | - | 8,673 | 8,673 |
| **PERMANENTLY RESTRICTED NET ASSETS** | | | | |
| Contributions | - | - | 10,000 | 10,000 |
| Increase in Permanently Restricted Net Assets | - | - | 10,000 | 10,000 |
| **CHANGES IN NET ASSETS** | 438,945 | 52,282 | 18,673 | 509,900 |
| Net Assets - Beginning of Year | 1,659,589 | 3,566,295 | 107,478 | 5,333,362 |
| **NET ASSETS - END OF YEAR** | $ 2,098,534 | $ 3,618,577 | $ 126,151 | $ 5,843,262 |

*See accompanying Notes to Financial Statements.*

**EASTER SEALS JOLIET REGION, INC.**
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**
**YEAR ENDED AUGUST 31, 2015**

| | Operating | Land, Buildings, and Equipment | Endowment | Total |
|---|---|---|---|---|
| **UNRESTRICTED NET ASSETS** | | | | |
| Public Support and Revenue: | | | | |
| Support from General Public | $ 16,805 | $ 11,570 | $ - | $ 28,375 |
| Support from Foundations and Trust | 79,740 | - | - | 79,740 |
| Special Fundraising Events, Net | 270,753 | - | - | 270,753 |
| United Way Allocation | 130,370 | - | - | 130,370 |
| Government Service Fees | 5,781,458 | 15,000 | - | 5,796,458 |
| Government Grants | 412,262 | 114,093 | - | 526,355 |
| Program Service Fees | 2,593,353 | - | - | 2,593,353 |
| Investment Loss | (4,853) | - | - | (4,853) |
| Contracted Services | 156,997 | - | - | 156,997 |
| Miscellaneous | 51,992 | - | - | 51,992 |
| Net Assets Released from Restrictions | 21,000 | - | - | 21,000 |
| Total Public Support and Revenue | 9,509,877 | 140,663 | - | 9,650,540 |
| **EXPENSES** | | | | |
| Program Services: | | | | |
| Direct Patient Services | 8,220,672 | 311,505 | - | 8,532,177 |
| Supporting Services: | | | | |
| Management and General | 715,442 | 15,030 | - | 730,472 |
| Fundraising | 147,960 | 2,872 | - | 150,832 |
| Total Program and Supporting Services Expense | 9,084,074 | 329,407 | - | 9,413,481 |
| Increase (Decrease) in Unrestricted Net Assets Before Other Items | 425,803 | (188,744) | - | 237,059 |
| **OTHER ITEMS** | | | | |
| Payments to National Organization | (41,729) | - | - | (41,729) |
| Transfers Between Funds | (248,664) | 248,664 | - | - |
| Increase in Unrestricted Net Assets | 135,410 | 59,920 | - | 195,330 |
| **TEMPORARILY RESTRICTED NET ASSETS** | | | | |
| Investment Loss | - | - | (1,136) | (1,136) |
| Net Assets Released from Restrictions | - | - | (21,000) | (21,000) |
| Increase in Temporarily Restricted Net Assets | - | - | (22,136) | (22,136) |
| **CHANGES IN NET ASSETS** | 135,410 | 59,920 | (22,136) | 173,194 |
| Net Assets - Beginning of Year | 1,524,179 | 3,506,375 | 129,614 | 5,160,168 |
| **NET ASSETS - END OF YEAR** | $ 1,659,589 | $ 3,566,295 | $ 107,478 | $ 5,333,362 |

*See accompanying Notes to Financial Statements.*

## EASTER SEALS JOLIET REGION, INC.
## STATEMENT OF FUNCTIONAL EXPENSES
## YEAR ENDED AUGUST 31, 2016

| | Program Services | Supporting Services | | |
|---|---|---|---|---|
| | Direct Patient Services | Management and General | Fundraising | Total |
| Employee Compensation | $ 5,268,962 | $ 462,427 | $ 42,651 | $ 5,774,040 |
| Employee Benefits | 725,176 | 82,141 | 2,513 | 809,830 |
| Payroll Taxes | 388,720 | 31,686 | 3,272 | 423,678 |
| Contractual Services | 310,604 | 51,354 | 55,430 | 417,388 |
| Audit and Tax Preparation Fees | - | 25,909 | - | 25,909 |
| Supplies | 129,702 | 2,025 | 2,252 | 133,979 |
| Telephone | 47,598 | 1,804 | 607 | 50,009 |
| Postage and Shipping | 5,366 | 508 | 4,416 | 10,290 |
| Utilities | 78,009 | 2,589 | 660 | 81,258 |
| Rent | 108,363 | 208 | 9,238 | 117,809 |
| Repairs and Maintenance | 171,462 | 11,446 | 6,033 | 188,941 |
| Small Equipment Purchases | 36,770 | 1,177 | 3,056 | 41,003 |
| Travel and Transportation | 125,047 | 369 | 904 | 126,320 |
| Conferences, Conventions, and Meetings | 21,865 | 761 | 107 | 22,733 |
| Assistance to Individuals | 685,057 | - | - | 685,057 |
| Printing and Publications | 3,780 | 521 | 2,807 | 7,108 |
| Membership Fees | 2,451 | 872 | 53 | 3,376 |
| Insurance | 61,528 | 3,892 | 316 | 65,736 |
| Interest | 68,751 | 1,356 | - | 70,107 |
| Miscellaneous | 22,252 | 1,834 | 4,553 | 28,639 |
| Depreciation | 254,657 | 12,153 | 2,823 | 269,633 |
| Total Functional Expenses | $ 8,516,120 | $ 695,032 | $ 141,691 | $ 9,352,843 |

*See accompanying Notes to Financial Statements.*

# EASTER SEALS JOLIET REGION, INC.
# STATEMENT OF FUNCTIONAL EXPENSES
# YEAR ENDED AUGUST 31, 2015

| | Program Services | Supporting Services | | |
|---|---|---|---|---|
| | Direct Patient Services | Management and General | Fundraising | Total |
| Employee Compensation | $ 5,055,072 | $ 494,228 | $ 41,125 | $ 5,590,425 |
| Employee Benefits | 763,357 | 102,677 | 4,094 | 870,128 |
| Payroll Taxes | 374,956 | 35,047 | 3,152 | 413,155 |
| Contractual Services | 421,993 | 27,037 | 65,626 | 514,656 |
| Audit and Tax Preparation Fees | - | 26,292 | - | 26,292 |
| Supplies | 127,430 | 3,263 | 2,584 | 133,277 |
| Telephone | 55,425 | 1,994 | 4,371 | 61,790 |
| Postage and Shipping | 10,739 | 490 | 4,576 | 15,805 |
| Utilities | 81,183 | 3,049 | 712 | 84,944 |
| Rent | 114,586 | 154 | 11 | 114,751 |
| Repairs and Maintenance | 185,859 | 10,533 | 8,096 | 204,488 |
| Small Equipment Purchases | 22,148 | 855 | 612 | 23,615 |
| Travel and Transportation | 140,409 | 950 | 527 | 141,886 |
| Conferences, Conventions, and Meetings | 17,508 | 452 | 25 | 17,985 |
| Assistance to Individuals | 772,349 | - | - | 772,349 |
| Printing and Publications | 3,033 | 144 | 5,040 | 8,217 |
| Membership Fees | 1,948 | 985 | 102 | 3,035 |
| Insurance | 53,023 | 4,002 | 288 | 57,313 |
| Interest | 77,608 | 1,691 | 17 | 79,316 |
| Miscellaneous | 16,768 | 3,077 | 7,002 | 26,847 |
| Depreciation | 236,783 | 13,552 | 2,872 | 253,207 |
| Total Functional Expenses | $ 8,532,177 | $ 730,472 | $ 150,832 | $ 9,413,481 |

*See accompanying Notes to Financial Statements.*

**EASTER SEALS JOLIET REGION, INC.**
**STATEMENTS OF CASH FLOWS**
**YEARS ENDED AUGUST 31, 2016 AND 2015**

| | 2016 | 2015 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Changes in Net Assets | $ 509,900 | $ 173,194 |
| Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities: | | |
| Net Realized and Unrealized (Gain) Loss on Investments | (60,059) | 69,217 |
| Gain on Sale of Property and Equipment | (3,697) | - |
| Provision for Uncollectible Accounts and Contractual Adjustments | 17,171 | 102,633 |
| Donated Property and Equipment | (10,000) | - |
| Contributions Restricted for Capital Improvements | (205,211) | (140,663) |
| Depreciation | 269,633 | 253,207 |
| Effects of Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | (294,906) | 10,244 |
| Prepaid Expenses and Other Assets | (682) | (19,469) |
| Accounts Payable and Accrued Expenses | (16,262) | (50,788) |
| Deferred Revenue | (123) | (189,754) |
| Net Cash Provided by Operating Activities | 205,764 | 207,821 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of Property and Equipment | (219,448) | (179,560) |
| Purchase of Investments | (602,943) | (917,434) |
| Proceeds from Sale of Property and Equipment | 12,310 | - |
| Sale or Redemption of Investments | 497,774 | 878,693 |
| Net Cash Used by Investing Activities | (312,307) | (218,301) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Contributions Restricted for Capital Improvements | 205,211 | 140,663 |
| Principal Payments on Long-Term Debt | (101,080) | (94,262) |
| Net Cash Provided by Financing Activities | 104,131 | 46,401 |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | (2,412) | 35,921 |
| Cash and Cash Equivalents - Beginning of Year | 427,471 | 391,550 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 425,059 | $ 427,471 |
| **SUPPLEMENTARY INFORMATION** | | |
| Receipt of Donated Property and Equipment | $ 10,000 | $ - |
| Refinancing of Long-Term Debt | $ 859,901 | $ - |
| Cash Paid for Interest | $ 70,107 | $ 79,316 |

*See accompanying Notes to Financial Statements.*

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Easter Seals Joliet Region, Inc. (the Agency) is an Illinois nonprofit corporation which provides comprehensive physical, medical, and rehabilitation services to the public. The purpose of the Agency is to assist physically and mentally disabled children and adults in Will, Grundy, Kendall, Kankakee, Ford, and Iroquois counties of Illinois to achieve independent living, optimal communication skills and an earned income. Activities are conducted from its headquarters office in Joliet, Illinois, and facilities in various other locations. The mission of the Agency is to provide exceptional services to ensure that people with disabilities or special needs and their families have equal opportunity to live, learn, work, and play in their communities.

The Agency achieved a change in net assets for the years ended August 31, 2016 and 2015 of $509,900 and $173,194, respectively. This change in net assets is reflected as an increase in net assets on the statements of activities and changes in net assets. Adjusting for items invested for future agency program and capital needs, the operating surplus is as follows:

| | 2016 | 2015 |
|---|---|---|
| Total Change in Net Assets | $ 509,900 | $ 173,194 |
| Less: | | |
| Bequests/Estate Gifts/Endowment | (60,000) | (1,762) |
| Capital Gifts | (205,211) | (140,663) |
| Investment (Income) Loss | (97,800) | 5,989 |
| Total Non-Operating Adjustments | (363,011) | (136,436) |
| Adjusted Operating Surplus | $ 146,889 | $ 36,758 |

### Basis of Accounting and Presentation

The financial statements have been prepared on the accrual basis of accounting and are presented in conformity with nonprofit financial reporting standards. In accordance with the limitations, designations, and restrictions placed on the use of resources available to the Agency, the following classifications are utilized according to the nature and purpose of the resources:

#### Unrestricted

Unrestricted net assets represent net assets that are not subject to donor-imposed restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by donor. Unrestricted net assets are reported as either designated for future programs or as undesignated. Designated for future programs are funds held in separate accounts that are to be used for specific agency programs and services as approved by the board of directors (board) of the Agency.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Basis of Accounting and Presentation (Continued)

#### Temporarily Restricted

Temporarily restricted net assets are assets subject to donor-imposed restrictions that may or will be met, either by actions of the Agency and/or the passage of time. When a restriction is satisfied, temporarily restricted net assets are transferred to unrestricted net assets and are reported in the statements of activities and changes in net assets as net assets released from restriction. However, temporarily restricted contributions whose restrictions are met in the same fiscal year are included as increases in unrestricted net assets.

#### Permanently Restricted

Permanently restricted net assets are subject to donor-imposed restrictions that will not terminate. The principal amount of the funds is held in perpetuity and is invested, while any investment return generated by the fund is temporarily restricted as to purpose. Declines in fair value of the investment are charged first and to the extent of any unutilized investment return recorded in temporarily restricted net assets, and then to unrestricted net assets. In the event unrestricted net assets are charged for any declines, future investment returns would first be credited to replenish unrestricted net assets, to the extent of any amounts previously charged.

### Accounting Policies

The Agency follows accounting standards established by the Financial Accounting Standards Board (FASB) to ensure consistent reporting of financial position, results of activities, and cash flows. References to accounting principles generally accepted in the United States of America in these footnotes are to the FASB Accounting Standards Codification™, sometimes referred to as the Codification or ASC.

### Revenue Recognition

The Agency recognizes public support consisting of contributions in the period received or earlier, at the time a donor provides an unconditional promise to pay. Government grants received in advance are recorded initially as deferred revenue and are then recognized as revenue as earned, which generally occurs when services are provided and expenses are incurred. Government and program service fees are recognized as earned.

### Cash and Cash Equivalents

Cash and cash equivalents includes highly liquid interest-bearing depository and money market accounts. The Agency considers all highly liquid instruments with an original maturity date of three months or less to be cash equivalents. Cash deposits may exceed federally insured limits from time to time. The Agency has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments

Investments are recorded at fair value. Changes in fair value are recorded as unrealized gains (losses). Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with investments, it is at least reasonably possible that changes in the fair value of investments will occur in the near term and such changes could materially affect the amounts reported.

### Accounts Receivable

Accounts receivable is comprised of service fees charged to insurance companies, individuals, and governmental agencies and is reported net of an allowance, determined by management based on historical collection experience and analysis of specific accounts based on third party contract rates. Effective September 1, 2015, third-party contract rates are reflected within service fees and the allowance is based on management experience, general economic conditions and other circumstances that may affect the ability for collection. Uncollectible accounts are written off in the year they are deemed to be worthless. Recoveries of accounts receivable previously written off are recorded as a reduction of the provision for uncollectible accounts when received. The Agency does not charge interest on past due accounts.

### Property and Equipment

Expenditures for the acquisition of land, buildings, and equipment are capitalized at cost. The fair value of any donated land, buildings, and equipment is similarly capitalized. Acquisition of property and equipment in excess of $1,000 is capitalized. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which is 40 years for buildings and improvements and group homes, and a range of 3 to 10 years for furniture and equipment, vehicles, office equipment, computer software, and leasehold improvements.

### Impairment of Long-Lived Assets

The Agency reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell. No events have occurred to cause the review of long-lived assets.

### Functional Allocation of Expenses

The costs of providing the various programs and supporting activities have been summarized on a functional basis in the statement of activities and changes in net assets. Expenses are charged to each function based on direct expenditures incurred. Expenditures not directly charged are allocated to the programs based on the proportional use of the service provided and the Agency's cost allocation plan.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Use of Estimates in Preparing Financial Statements

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 disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates. Significant estimates in the accompanying financial statements include the allowance for uncollectible accounts and the allowance for contractual adjustments as of August 31, 2016 and 2015, respectively.

### Income Taxes

The Agency, an Illinois nonprofit corporation, is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and applicable state law, except for taxes pertaining to unrelated business income, if any.

The Agency follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Agency may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Agency, and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest, and penalties on income taxes, and accounting in interim periods. At August 31, 2016 and 2015, there were no uncertain tax positions identified or recorded as assets or liabilities.

The Agency files Form 990 in the U.S. federal jurisdiction and the state of Illinois.

### Reclassifications

Certain reclassifications have been made to the August 31, 2015 financial statement amounts in order to conform to the August 31, 2016 presentation. These reclassifications have had no impact on the total assets, net assets, or changes in net assets previously reported.

### Pending Pronouncements

#### Revenue Recognition

In May 2014, the FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pending Pronouncements (Continued)**

**Revenue Recognition (Continued)**

Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods.

The standard will be effective for the Agency for annual periods beginning after December 15, 2018. Early adoption is permitted beginning for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

**Leases**

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance changes the accounting for sale and leaseback transactions to conform to the new revenue recognition standard. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the Agency's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted.

**Financial Statements of Nonprofit Entities**

In August 2016, the FASB issued amended guidance to improve the current net asset classification requirements and the information presented in financial statements and notes about a nonprofit entity's liquidity, financial performance, and cash flows. The main provisions of the update are:

- Present on the face of the statement of financial position amounts for two classes of net assets at the end of the year, rather than the current three classes.
- Present on the face of the statement of activities the amount of the change in each of the two classes of net assets.
- Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting. However, no longer require the presentation or disclosure of the indirect method reconciliation, if using the direct method.
- Enhanced disclosures in the following areas:
    - Board-designated net assets
    - Donor-restricted net assets

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Pending Pronouncements (Continued)**

**Financial Statements of Nonprofit Entities (Continued)**

- Qualitative and quantitative information on liquidity
- Amounts of expenses by both their natural and functional classification
- Methods used to allocate costs among program and supporting functions
- Underwater endowments

- Report investment return net of external and direct internal investment expenses and no longer require disclosures of those netted expenses.

The amendments should be applied on a retrospective basis in the year that the pronouncement is first applied. The standard will be effective for the Agency for annual periods beginning after December 15, 2017. Early adoption is permitted.

## NOTE 2 INVESTMENTS

Investments consist of the following at August 31:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Cost | Market Value | Cost | Market Value |
| Fixed Income: | | | | |
| Short-Term Bond Funds | $ 421,505 | $ 419,594 | $ 391,106 | $ 386,249 |
| Intermediate Term Bond Fund | 83,500 | 85,673 | - | - |
| Global Bond Funds | - | - | 26,792 | 22,995 |
| High-Yield Bond Funds | - | - | 18,786 | 17,920 |
| Equities: | | | | |
| Large Blend Funds | 196,320 | 207,712 | 258,989 | 248,555 |
| Large Growth Funds | 381,142 | 446,117 | 297,438 | 347,553 |
| Large Value Funds | 271,200 | 285,493 | 276,298 | 266,035 |
| Small Cap Funds | 77,325 | 84,749 | 76,356 | 78,224 |
| Other Strategy Funds | 17,003 | 20,374 | 17,003 | 16,953 |
| Total | $ 1,447,995 | $ 1,549,712 | $ 1,362,768 | $ 1,384,484 |

The components of investment income (loss) included in both unrestricted and temporarily restricted net assets for the years ended August 31 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Interest Income, Dividends, and Capital Gain Distributions | $ 37,741 | $ 63,228 |
| Realized (Loss) Gain on Sale or Redemption of Investments | (20,269) | 32,977 |
| Unrealized Gain (Loss) on Investments | 80,328 | (102,194) |
| Total | $ 97,800 | $ (5,989) |

## NOTE 3 FAIR VALUE DISCLOSURES

The fair value measurements and disclosures topic of the ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the topic as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under the topic are described below:

*Level 1* – Quoted market prices in active markets, such as the New York Stock Exchange, for identical assets or liabilities.

*Level 2* – Observable market-based inputs or unobservable inputs that are corroborated by market data.

*Level 3* – Unobservable inputs that are not corroborated by market data.

The Agency assesses the levels at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Agency's accounting policy regarding the recognition of the transfer between levels of the fair value hierarchy. For the years ended August 31, 2016 and 2015, there were no such transfers.

For the years ended August 31, 2016 and 2015, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis:

**Investment Securities**

The fair values of publicly-traded mutual funds are based upon market quotations of national security exchanges.

All investments of the Agency are considered Level 1 investments.

## NOTE 4 ACCOUNTS RECEIVABLE

At August 31 accounts receivable consists of:

| | 2016 | 2015 |
|---|---|---|
| Accounts Receivable | $ 818,932 | $ 894,378 |
| Allowance for Uncollectible Accounts | (17,171) | - |
| Allowance for Contractual Adjustments | - | (370,352) |
| Total | $ 801,761 | $ 524,026 |

## NOTE 5 PROPERTY AND EQUIPMENT

A summary of property and equipment as of August 31 is as follows:

| | 2016 | 2015 |
|---|---|---|
| Land | $ 894,348 | $ 894,348 |
| Buildings and Improvements | 3,819,837 | 3,819,837 |
| Group Homes | 2,825,870 | 2,661,511 |
| Leasehold Improvements | 8,022 | 8,022 |
| Furniture and Equipment | 464,868 | 463,826 |
| Vehicles | 256,018 | 257,824 |
| Office Equipment/Computer Software | 178,325 | 176,996 |
| Total | 8,447,288 | 8,282,364 |
| Less: Accumulated Depreciation | 3,168,217 | 2,954,495 |
| Total Land, Buildings, and Equipment | $ 5,279,071 | $ 5,327,869 |

Depreciation expense for the years ended August 31, 2016 and 2015 was $269,633 and $253,207, respectively.

## NOTE 6 LINE OF CREDIT

The Agency has a $700,000 unsecured bank line of credit that expires on January 15, 2017. Interest is payable monthly and accrues at a rate equivalent to the bank's prime rate (which was 3% at August 31, 2016 and 2015) less 0.50% and 0.25% at August 31, 2016 and 2015, respectively. There were no borrowings outstanding under this line at August 31, 2016 and 2015.

The terms of the line of credit provide for certain financial and nonfinancial covenants. At August 31, 2016 and 2015, the Agency was in compliance with these covenants.

## NOTE 7 LONG-TERM DEBT

At August 31 the Agency had the following mortgage note obligations:

| Description | 2016 | 2015 |
|---|---|---|
| Mortgage note payable to Standard Bank, payable in monthly installments of $1,094 and a final installment of $143,506, including interest at 4.5% per annum, collateralized by certain real property, due on September 5, 2017. | $ 149,139 | $ 155,040 |
| Mortgage note payable to Standard Bank, payable in monthly installments of $5,301 and a final installment of $557,169, including interest at 2.85% per annum, collateralized by certain real property, due on November 5, 2018. | 651,454 | 695,887 |
| Mortgage note payable to First Midwest Bank, payable in monthly installments of $7,659 and a final installment of $562,174, including interest at 4.25% per annum, collateralized by certain real property, due on August 15, 2021. | 859,901 | - |
| Mortgage note payable to First Midwest Bank, payable in monthly installments of $2,495 and a final installment of $171,326, including interest at 5% per annum, collateralized by certain real property, due on January 7, 2017. | - | 199,573 |
| Mortgage note payable to First Midwest Bank, payable in monthly installments of $4,615 and a final installment of $591,886, including interest at 4.99% per annum, collateralized by certain real property, due on June 1, 2017. | - | 567,922 |
| Mortgage note payable to Standard Bank, payable in monthly installments of $1,176 and a final installment of $115,803, including interest at 4.375% per annum, collateralized by certain real property, due on January 31, 2019. | - | 143,152 |
| Total Debt | 1,660,494 | 1,761,574 |
| Less: Current Portion | 109,085 | 106,161 |
| Total Long-Term Debt | $ 1,551,409 | $ 1,655,413 |

## NOTE 7 LONG-TERM DEBT (CONTINUED)

Future required principal payments by fiscal year at August 31, 2016 are as follows:

| Year Ending August 31, | Amount |
|---|---|
| 2017 | $ 109,085 |
| 2018 | 248,923 |
| 2019 | 617,933 |
| 2020 | 63,583 |
| 2021 | 620,970 |
| Total | $ 1,660,494 |

## NOTE 8 OPERATING LEASES

The Agency leases certain space and equipment under various leases with maturity dates through September 30, 2019. Rent expense for the years ended August 31, 2016 and 2015 totaled $117,809 and $114,751, respectively. Future minimum rental commitments under these leases by fiscal year at August 31, 2016 are as follows:

| Year Ending August 31, | Amount |
|---|---|
| 2017 | $ 54,776 |
| 2018 | 42,622 |
| 2019 | 28,984 |
| 2020 | 1,689 |
| Total | $ 128,071 |

## NOTE 9 RELATED PARTIES

The Agency has an ongoing relationship with National Easter Seals. For the years ended August 31, 2016 and 2015, the Agency paid $39,126 and $41,729, respectively, in membership dues to the Easter Seals network. National Easter Seals provides assistance in staff development, public relations, and donor solicitation.

## NOTE 10 RETIREMENT PLANS

The Agency has a salary deferred plan under Section 401(k) of the IRC. Employees are eligible once they have attained age 21 and completed one year of service. Beginning on January 1, 2012, the Agency matches $0.50 on the dollar up to 3% of gross wages following the first year of employment with at least 1,000 hours. The Agency's contribution to the 401(k) plan was $39,631 and $37,934 for the years ended August 31, 2016 and 2015, respectively. The Agency's match portion is vested ratably over a five-year period.

## NOTE 10 RETIREMENT PLANS (CONTINUED)

All non-union employees 21 years of age or older with three years or more of service are eligible for the simplified employee pension plan, which is a defined contribution plan under Section 401(k). Contributions to the simplified employee pension plan, based on participants' salaries, are discretionary and totaled $5,044 and $6,772 for the years ended August 31, 2016 and 2015, respectively.

## NOTE 11 SUPPORT FROM GOVERNMENTAL UNITS AND CONTINGENCIES

The Agency receives a significant portion of its support and revenue from the state of Illinois, primarily through the Illinois Department of Human Services and the Illinois Department of Children and Family Services. A portion of this support passes through the state from the federal government. A significant reduction in the level of this support, if this were to occur, could have a significant effect on the Agency's programs and activities. This support is subject to review and final determination by the state of Illinois. The Agency does not anticipate any significant adjustments upon final review and determination. See Note 12 for concentration of revenue associated with these entities.

## NOTE 12 CONCENTRATIONS

Accounting principles generally accepted in the United States of America require disclosure of information about current vulnerabilities due to certain concentrations. These matters include the following:

**Concentration of Revenue**

The Agency receives a substantial amount of its revenue from grants and contracts with various governmental agencies. Approximately 55% and 58% of total support and revenues during the years ended August 31, 2016 and 2015, respectively, were received from these government contracts and grants.

Amounts due from the Illinois Department of Human Services and Illinois Department of Children and Family Services represent approximately 25% and 14% of the total outstanding accounts receivable balance, net of allowance, as of August 31, 2016 and 2015, respectively.

**Collective Bargaining Agreement**

The Agency currently has a collective bargaining agreement in place which covers approximately 31% of the employees. The most recent agreement was effective January 1, 2014 and will expire on December 31, 2016. No amounts were paid to multiemployer plans on behalf of union employees during the years ended August 31, 2016 and 2015.

## NOTE 13 ENDOWMENT FUNDS

**Interpretation of Relevant Law**

The board of the Agency has interpreted Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agency classified as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency in a manner consistent with the standard of prudence prescribed by UPMIFA.

The changes in endowment net assets for the Agency were as follows for the years ended August 31:

| | 2016 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment Net Assets - Beginning of Year | $ - | $ 7,478 | $ 100,000 | $ 107,478 |
| Investment Return: | | | | |
| Investment Income | - | 5,948 | - | 5,948 |
| Net Appreciation (Realized and Unrealized) | - | 2,725 | - | 2,725 |
| Total Investment Return | - | 8,673 | - | 8,673 |
| Contributions | - | - | 10,000 | 10,000 |
| Endowment Net Assets - End of Year | $ - | $ 16,151 | $ 110,000 | $ 126,151 |

| | 2015 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment Net Assets - Beginning of Year | $ - | $ 29,614 | $ 100,000 | $ 129,614 |
| Investment Return: | | | | |
| Investment Income | - | 6,407 | - | 6,407 |
| Net Depreciation (Realized and Unrealized) | - | (7,543) | - | (7,543) |
| Total Investment Return | - | (1,136) | - | (1,136) |
| Released from Restrictions | - | (21,000) | - | (21,000) |
| Endowment Net Assets - End of Year | $ - | $ 7,478 | $ 100,000 | $ 107,478 |

## NOTE 13 ENDOWMENT FUNDS (CONTINUED)

**Fund Deficiency**

From time to time, the fair value of assets associated with the donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Agency to retain as a fund of perpetual duration. No such deficiencies of this nature were reported as of August 31, 2016 and 2015.

**Return Objectives and Risk Parameters**

In consideration of the donor's intent, the Agency established a segregated endowment fund. All gifts to the fund may be invested and reinvested from time to time without restriction as to kind, at the Agency's board's sole discretion. The Agency adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the board, the endowment assets are invested in a manner that is intended to produce results that exceed the total return results set in the investment policy, while assuming a moderate level of investment risk.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Agency relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Agency targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

All gifts to the fund may be invested and reinvested from time to time without restriction as to kind, at the Agency's board's sole discretion. Income from the fund is considered temporarily restricted, required to be utilized specifically for land, buildings, improvements, furniture, equipment, and vehicles that support the Agency's mission.

## NOTE 14 SUBSEQUENT EVENTS

Management evaluated subsequent events through November 22, 2016, the date the financial statements were available to be issued. Events or transactions occurring after August 31, 2016, but prior to November 22, 2016 that provided additional evidence about conditions that existed at August 31, 2016, have been recognized in the financial statements for the year ended August 31, 2016. Events or transactions that provided evidence about conditions that did not exist at August 31, 2016 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended August 31, 2016.