Easterseals Arkansas

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
June 30, 2018 and 2017

(With Independent Auditor's Reports Thereon)

Easterseals Arkansas

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Easterseals Arkansas
Little Rock, Arkansas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **Easterseals Arkansas** and affiliates (collectively, "**the Organization**"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 the consolidated 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 the consolidated 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 audits to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated financial statements referred to on the preceding page present fairly, in all material respects, the consolidated financial position of **Easterseals Arkansas** and affiliates as of June 30, 2018 and 2017, and the consolidated changes in their net assets and their 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 consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*; schedule of state assistance, as required by the state of Arkansas Department of Human Services; and the supplementary schedules, as listed in the accompanying table of contents, are presented for purposes of additional analysis and are 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 consolidated 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 March 27, 2019 on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

Landmark PLC
Certified Public Accountants

March 27, 2019
Little Rock, Arkansas

Consolidated Financial Statements

Easterseals Arkansas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents - unrestricted	$ 2,257,458	$ 2,177,292
Cash and cash equivalents - restricted	497,974	483,117
Investments	2,151,763	2,007,349
Grants and contracts receivable, net	1,672,499	1,220,956
Contributions receivable, net	71,281	16,223
Other receivables	19,575	9,814
Prepaid expenses and other assets	186,484	130,833
Property and equipment, net	21,090,636	21,548,484
TOTAL ASSETS	$ 27,947,670	$ 27,594,068
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 283,964	$ 252,595
Accrued expenses and other liabilities	1,264,722	1,269,767
Capital lease obligations	93,797	172,196
Long-term obligations	3,980,821	4,471,858
Total Liabilities	5,623,304	6,166,416
Net Assets		
Unrestricted	17,267,179	16,408,658
Temporarily restricted	4,982,090	4,943,897
Permanently restricted	75,097	75,097
Total Net Assets	22,324,366	21,427,652
TOTAL LIABILITIES AND NET ASSETS	$ 27,947,670	$ 27,594,068

See accompanying notes to consolidated financial statements.

Easterseals Arkansas

CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2018 and 2017

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
Support, Revenue, Gains (Losses) and Reclassifications		
Fees and Grants from Government Agencies		
Medicaid	$ 18,245,605	$ 17,553,206
Federal awards	1,996,053	1,732,121
State assistance	502,065	287,015
Public Support		
Contributions	464,512	1,527,124
Special events	990,624	731,567
Net assets released from restrictions	-	6,595
Other		
Private pay and insurance	870,607	1,029,837
Workshop fees	216,292	217,089
Contract service fees	460,321	459,292
Rental income	171,459	178,431
Investment income	51,598	42,332
Gain (loss) on disposals of property and equipment	(1,828)	81
Net appreciation (depreciation) in fair value of investments	36,917	52,806
Miscellaneous	7,293	7,462
Total Unrestricted Support, Revenue, Gains (Losses) and Reclassifications	24,011,518	23,824,958
Expenses		
Program Services		
Children	11,596,167	11,192,708
Adult	8,987,845	8,381,041
	20,584,012	19,573,749
Supporting Services		
Administration	1,923,685	1,999,332
Fundraising	645,300	696,601
	2,568,985	2,695,933
Total Expenses	23,152,997	22,269,682
Increase in Unrestricted Net Assets	858,521	1,555,276

(Continued)

See accompanying notes to consolidated financial statements.

Easterseals Arkansas

CONSOLIDATED STATEMENTS OF ACTIVITIES *(Continued)*
Years Ended June 30, 2018 and 2017

	2018	2017
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Public Support		
Contributions	$ 19,749	$ 10,000
Net appreciation in fair value of investments	18,444	4,179
Net assets released from restrictions	-	(6,595)
Increase in Temporarily Restricted Net Assets	38,193	7,584
INCREASE IN TOTAL NET ASSETS	896,714	1,562,860
NET ASSETS, BEGINNING OF YEAR	21,427,652	19,864,792
NET ASSETS, END OF YEAR	$ 22,324,366	$ 21,427,652

See accompanying notes to consolidated financial statements.

Easterseals Arkansas

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Total Net Assets	$ 896,714	$ 1,562,860
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities		
Depreciation and amortization expense	734,165	755,610
Loss (gain) on disposals of property and equipment	3,377	(81)
Net appreciation in fair value of investments	(55,361)	(56,985)
Changes in operating assets and liabilities:		
Grants and contracts receivable	(451,543)	147,234
Contributions receivable	(55,058)	93,077
Other receivables	(9,761)	(7,862)
Prepaid expenses and other assets	(55,651)	109,323
Accounts payable	31,369	(44,732)
Accrued expenses and other liabilities	(5,045)	(267,794)
Net Cash Provided by Operating Activities	1,033,206	2,290,650
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(279,694)	(244,458)
Purchases of investments	(122,720)	(1,279,511)
Proceeds from sales and maturities of investments	33,667	49,139
Net Cash Used by Investing Activities	(368,747)	(1,474,830)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligations	(78,399)	(77,951)
Payments on long-term obligations	(491,037)	(612,195)
Net Cash Used by Financing Activities	(569,436)	(690,146)
NET INCREASE IN CASH AND CASH EQUIVALENTS	95,023	125,674
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,660,409	2,534,735
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,755,432	$ 2,660,409
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
Cash and cash equivalents - unrestricted	$ 2,257,458	$ 2,177,292
Cash and cash equivalents - restricted	497,974	483,117
Total Cash and Cash Equivalents	$ 2,755,432	$ 2,660,409
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest expense incurred and paid	$ 191,124	$ 203,171

See accompanying notes to consolidated financial statements.

NOTE 1: NATURE OF ACTIVITIES

These consolidated financial statements include the accounts of Easterseals Arkansas (ESA), a nonprofit corporation serving children and adults with disabilities throughout the state of Arkansas, and its affiliates, which include Easterseals Arkansas Foundation (the Foundation), Armistead Apartments, Inc. (Armistead), Charlotte Gardens, Inc. (Charlotte Gardens), Wilson Court II and Harold Court (collectively, "the Organization").

The Foundation, a nonprofit corporation, was established to foster, support and encourage the activities of ESA. Armistead, Charlotte Gardens, Wilson Court II and Harold Court, also nonprofit corporations, were established to provide housing facilities located in Little Rock, Arkansas, for low-income persons with disabilities and operate under the terms of agreements with the U.S. Department of Housing and Urban Development (HUD). ESA has the ability to exercise control over and has an economic interest in each of these affiliated corporations.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The consolidated financial statements of the Organization have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. All significant transactions and balances between affiliated entities have been eliminated.

(b) Basis of Presentation

The Organization is required to report information regarding its consolidated financial position and activities according to three classes of net assets - unrestricted, temporarily restricted and permanently restricted, as applicable.

(c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the consolidated financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

(d) Cash and Cash Equivalents

For the purposes of the statements of cash flow, ESA considers all short term investment funds and highly liquid debt instruments purchased with original maturity date of three months or less to be cash equivalents. At times during 2018 and 2017, cash and cash equivalent balances held with financial institutions and investment banking firms exceeded the amounts insured by the Federal Deposit Insurance Corporation (FDIC) or Securities Investor Protection Corporation (SIPC), as applicable, and were not collateralized. In the event of an institutional failure, account balances exceeding FDIC or SIPC insurance may not be recoverable. At June 30, 2018 and 2017, the Organization's account balances totaled approximately $2,947,000 and $2,832,000, respectively. Of these balances, approximately $1,506,000 and $1,415,000 at June 30, 2018 and 2017, respectively, were not insured by the FDIC or SIPC, nor were they collateralized.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Investments
Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. See Note 5 for further discussion of fair value measurements.

Net appreciation (depreciation) in fair value of investments reported on the consolidated statements of activities includes realized and unrealized gains and losses on investments bought and sold during the year, as well as those held at year end. Purchases and sales are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

(f) Property and Equipment, Net
Purchased property and equipment are recorded at historical cost, while contributed property and equipment are recorded at their estimated fair value at the date of receipt. Contributions of property and equipment are reported as unrestricted support, unless the donor has restricted the use of the contributed asset for specific purposes. Major renewals and improvements are capitalized, while normal repairs and maintenance are expensed in the period incurred. Depreciation and amortization expense is computed using the straight-line basis over the estimated useful lives of the assets, excluding land and land improvements, which have indefinite useful lives. Useful lives of buildings and improvements range from ten to forty years, while the useful lives of furniture, equipment and vehicles range from five to ten years.

(g) Contributions
Contributions, including unconditional promises to give, are recognized as support in the consolidated statements of activities in the period received or when the Organization becomes aware that a promise to give has been made, whichever occurs first.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the consolidated statements of activities as net assets released from restrictions.

Contributions receivable as of June 30, 2018 and 2017 consist of unconditional promises to give and are considered by management to be fully collectible. Contributions that are expected to be collected in future years are discounted to their estimated present value on the date the gift was made. Amortization of the discount is recorded as additional support over the period of collection. As of June 30, 2018 and 2017 all contributions receivable are expected to be collected within one year.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Revenue Recognition
Federal awards and state assistance are recognized as revenue on a reimbursement of expense basis. Contractual fees for services are recognized as revenue when the related service is provided. Receivables from federal and state agencies represent amounts requested for reimbursement for allowable expenses incurred in excess of grant funds received or for contractual services that have been provided but for which the Organization has not received compensation. Grant awards are classified as refundable advances to the extent that funds are received before they are expended for their intended purpose or before the required service is provided. Any such amounts are included in accrued expenses and other liabilities on the consolidated statements of financial position.

(i) Allowance for Uncollectible Grants and Contracts Receivable
Allowances for uncollectible grants and contracts receivable are based upon management's analysis of specific accounts, anticipated collections and related historical trends for write-offs of these receivables. Changes in the allowance for uncollectible Medicaid receivables are netted against Medicaid revenues for purposes of presentation in the consolidated financial statements. Changes in the allowance for other uncollectible grants and contracts receivable are included in the appropriate related expenses. Management does not anticipate material losses on these receivables in excess of established allowances.

(j) Donated Services and Materials
Donated services are recognized as contributions only if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization. Although many volunteers have donated significant amounts of their time to the Organization's program services and fundraising activities, the value of such donated services has not been recognized in the consolidated financial statements as neither of the recognition criteria have been met.

The Organization receives donated items for use in its program services and special events. These contributions are reflected as support and expense in the consolidated financial statements based upon their estimated fair values during the period of use. The value of donated items included in the consolidated financial statements for the years ended June 30, 2018 and 2017 is approximately $81,800 and $94,500, respectively.

(k) Functional Expenses
The Organization allocates its expenses on a functional basis among various programs and supporting services. Expenses that can be identified with a specific program or supporting service are recorded directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated to the Organization's programs using various statistical bases.

Expenses associated with certain activities and functions necessary for the support of programs provided by the Organization are reported as supporting services expenses. Supporting services include costs associated with general and administrative functions of the Organization and fundraising activities.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Income Taxes
ESA, the Foundation, Armistead, Charlotte Gardens, Wilson Court II and Harold Court are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and are not private foundations.

Accounting standards require the Organization to evaluate its tax positions and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Organization has analyzed the tax positions taken and has concluded that as of June 30, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require the recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Organization may be subject to audit by the Internal Revenue Service; however there are currently no audits for any tax periods in progress.

(m) Recently Issued Accounting Standards
In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The purpose of ASU No. 2016-14 is to amend existing financial reporting standards applicable to not-for-profit entities to improve the usefulness, relevance and clarity of information presented in financial statements and to enhance the information presented in the notes thereto. This new standard, which became effective for the Organization July 1, 2018, requires the following:

- Presentation of two classes of net assets – net assets with donor restrictions and net assets without donor restrictions.
- Elimination of the requirement to present a reconciliation of cash flows using the indirect method if the organization elects to use the direct method for purposes of preparing the statement of cash flows.
- Enhanced disclosures about governing board designations and other self-imposed limits on the use of resources, as well as the composition of net assets with donor restrictions at the end of the period and how those restrictions affect the use of resources.
- New disclosures containing qualitative information communicating how liquid resources are managed to meet cash needs for general expenditures within one year of the financial reporting date and quantitative information communicating the availability of resources to meet cash needs for general expenditures within one year of the financial reporting date.
- Presentation of expenses by natural and functional classification, either on the statement of activities, in a separate statement or in the notes to the financial statements.
- Reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhanced disclosures about underwater endowments.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Recently Issued Accounting Standards *(Continued)*

- Enhanced disclosures about the method(s) used to allocate costs among program and support functions.
- Reporting of investment return net of external and direct internal investment expenses.

While this new standard will significantly impact the presentation of the consolidated financial statements and the content of disclosures in the notes to the consolidated financial statements, it is not expected to have a material impact on the recording or measurement of amounts presented therein.

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenues from Contracts with Customers*, which 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 the entity expects to be entitled in exchange for those goods or services. This revenue recognition standard, which will become effective for the Organization on July 1, 2019, generally affects all entities that either enter into contracts with customers to transfer goods, services or nonfinancial assets. Implementation of the requirements of this standard will require that the Organization 1) identify all contracts with customers, 2) identify performance obligations in the contracts, 3) determine the transaction price, 4) allocate the transaction price, and 5) recognize revenue when or as performance obligations are satisfied. Management of the Organization has not yet determined the significance of the impact that implementation of this standard or any related amendments will have on the Organization's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires lessees to record a right-of-use asset and a corresponding liability equal to the present value of future rental payments for all leases with a term greater than one year. This new standard is effective for the Organization on July 1, 2020. Management of the Organization has not yet determined the significance of the impact that implementation of this standard or any related amendments will have on the Organization's consolidated financial statements.

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Not-For-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update provide guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions), or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in this update primarily affect not-for-profit entities but apply to all entities, including business entities that receive or make contributions of cash and other assets. Transfers of assets from government entities to business entities are expressly excluded from the scope of this update. The amendments in this update will be applied by the Organization on a modified prospective basis effective July 1, 2019. Management has not yet determined the significance of the impact that implementation of the amendments in this update will have on the Organization's financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Recently Issued Accounting Standards *(Continued)*

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows.* The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update became effective for the Company on July 1, 2019. Management of the Company has not yet determined the significance of the impact of implementation of this standard or any related amendments.

NOTE 3: RESTRICTED CASH AND CASH EQUIVALENTS

Bond Reserve Accounts Held with Trustee

Restricted cash and cash equivalents includes bond reserve accounts and replacement reserve accounts required by HUD as follows:

(a) Bond Funds

The bond funds include resources accumulated for the payment of principal and interest on outstanding bonds.

(b) Debt Service Reserve Funds

The debt service reserve funds include additional resources segregated to pay scheduled principal and interest payments in the event that sufficient resources are not available in the bond funds.

Balances in these accounts, which are held with the trustee in demand deposit accounts and certificates of deposits, are not available for general operating purposes. The balances are as follows at June 30:

	2018	2017
Bond funds	$ 93,302	$ 92,369
Debt service reserve funds	159,404	158,062
	$ 252,706	$ 250,431

HUD Accounts

The Organization maintains deposit accounts as required by HUD to accumulate resources for building maintenance, replacement of property and other allowable expenses specified by HUD. Balances accumulated in these accounts may not be spent without HUD approval. Balances in these accounts totaled approximately $245,000 and $233,000 at June 30, 2018 and 2017, respectively.

NOTE 4: INVESTMENTS

The following summarizes the estimated fair values of the Organization's investments at June 30:

	2018	2017
Mutual funds	$ 698,217	$ 983,584
U.S. Treasury notes	39,629	-
Exchange traded funds	1,198,081	944,376
Equity securities	215,836	79,389
	$ 2,151,763	$ 2,007,349

NOTE 5: FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Organization uses appropriate valuation techniques based on available inputs to measure the fair value of assets. When available, the Organization measures fair value using Level 1 inputs, because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in valuation methodologies used during the years ended June 30, 2018 and 2017.

The fair values of mutual funds are determined based on the net asset value of shares held by the Organization at year end. Mutual funds held by Organization are open ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

The fair values of U.S. Treasury notes, exchange traded funds and equity securities are determined based on closing prices reported on the active market in which those investments are traded.

The methods described to estimate fair value may result in a fair value estimate that is indicative of net realizable value or reflective of future fair values. Furthermore, although management of the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Organization’s assets measured at fair value on a recurring basis at June 30 are as follows:

	June 30, 2018			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Mutual funds:				
Short-term bonds	$ 76,542	$ 76,542	$ -	$ -
Small value	10,816	10,816	-	-
Small growth	47,550	47,550	-	-
Mid-cap growth	6,168	6,168	-	-
Mid-cap blend	6,179	6,179	-	-
Large value	22,651	22,651	-	-
Large growth	23,523	23,523	-	-
Corporate bonds	111,889	111,889	-	-
High-yield bond	7,750	7,750	-	-
Ultrashort bond	196,090	196,090	-	-
Intermediate term bond	154,880	154,880	-	-
Energy limited partnership	13,081	13,081	-	-
Foreign large blend	6,005	6,005	-	-
World blend	15,093	15,093	-	-
Total mutual funds	698,217	698,217	-	-

(Continued)

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

	June 30, 2018			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
U.S. Treasury Notes	$ 39,629	$ 39,629	$ -	$ -
Exchange traded funds:				
Small growth	85,614	85,614	-	-
Mid-cap value	69,199	69,199	-	-
Mid-cap growth	83,388	83,388	-	-
Large value	303,322	303,322	-	-
Small blend	7,357	7,357	-	-
Large blend	40,136	40,136	-	-
Foreign large blend	4,822	4,822	-	-
Large growth	133,704	133,704	-	-
Financial	36,915	36,915	-	-
Short-term bond	210,648	210,648	-	-
Preferred stock	129,851	129,851	-	-
Corporate bonds	93,125	93,125	-	-
Total exchange traded funds	1,198,081	1,198,081	-	-
Equity securities:				
Basic materials	66,967	66,967	-	-
Financial	29,893	29,893	-	-
Healthcare	20,357	20,357	-	-
Services	1,505	1,505	-	-
Industrials	38	38	-	-
Communication	23,002	23,002	-	-
Consumer goods	24,015	24,015	-	-
Technology	50,059	50,059	-	-
Total equity securities	215,836	215,836	-	-
	$ 2,151,763	$ 2,151,763	$ -	$ -

	June 30, 2017			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Mutual funds:				
Short-term bonds	$ 114,993	$ 114,993	$ -	$ -
Small value	10,081	10,081	-	-
Small growth	42,849	42,849	-	-
Mid-cap value	19,100	19,100	-	-
Mid-cap growth	5,697	5,697	-	-

(Continued)

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

	June 30, 2017			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Mutual funds *(Continued)* :				
Mid-cap blend	$ 6,218	$ 6,218	$ -	$ -
Large value	113,352	113,352	-	-
Large growth	21,360	21,360	-	-
Corporate bonds	109,964	109,964	-	-
High-yield bond	16,051	16,051	-	-
Multisector bond	18,275	18,275	-	-
Ultrashort bond	192,577	192,577	-	-
Intermediate term bond	18,448	18,448	-	-
Intermediate value bond	135,447	135,447	-	-
Nontraditional bond	2,497	2,497	-	-
Energy limited partnership	13,990	13,990	-	-
Diversified emerging markets	6,939	6,939	-	-
Foreign large blend	5,683	5,683	-	-
Large blend	47,152	47,152	-	-
World bond	14,209	14,209	-	-
Europe stock	4,968	4,968	-	-
Bank loans	6,781	6,781	-	-
World allocation	18,764	18,764	-	-
Moderate allocation	16,740	16,740	-	-
Aggressive allocation	21,449	21,449	-	-
Total mutual funds	983,584	983,584	-	-
Exchange traded funds:				
Small growth	70,715	70,715	-	-
Mid-cap value	71,110	71,110	-	-
Mid-cap growth	65,758	65,758	-	-
Large value	168,647	168,647	-	-
Large blend	36,942	36,942	-	-
Foreign large blend	4,694	4,694	-	-
Large growth	85,575	85,575	-	-
Financial	33,869	33,869	-	-
Short-term bond	173,776	173,776	-	-
Preferred stock	135,694	135,694	-	-
Corporate bonds	97,596	97,596	-	-
Total exchange traded funds	944,376	944,376	-	-

(Continued)

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

	June 30, 2017			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Equity securities:				
Basic materials	$ 43,269	$ 43,269	$ -	$ -
Financial	13,368	13,368	-	-
Healthcare	17,108	17,108	-	-
Services	1,627	1,627	-	-
Technology	4,017	4,017	-	-
Total equity securities	79,389	79,389	-	-
	$ 2,007,349	$ 2,007,349	$ -	$ -

NOTE 6: GRANTS AND CONTRACTS RECEIVABLE, NET

The following is a summary of grants and contracts receivable at June 30:

	2018	**2017**
Medicaid	$ 1,683,771	$ 1,160,037
Federal awards	56,753	56,740
State assistance	58,504	39,336
Private pay and insurance	69,199	12,902
Contract service fees	58,901	51,812
	1,927,128	1,320,827
Less allowance for uncollectible receivables	(254,629)	(99,871)
	$ 1,672,499	$ 1,220,956

NOTE 7: PROPERTY AND EQUIPMENT, NET

The following is a summary of property and equipment at June 30:

	2018	**2017**
Buildings and improvements	$ 22,677,966	$ 22,677,966
Furniture and equipment	3,355,388	3,082,806
Vehicles	586,314	652,469
	26,619,668	26,413,241
Less accumulated depreciation and amortization	(10,836,985)	(10,172,710)
	15,782,683	16,240,531
Land and nondepreciable land improvements	5,307,953	5,307,953
	$ 21,090,636	$ 21,548,484

NOTE 8: LONG-TERM OBLIGATIONS

On October 1, 1997, the Pulaski County Public Facilities Board (the County) issued a $6,000,000 revenue bond (the 1997 Facility Bond) to finance the construction of a forty-bed children's rehabilitation center. Under a loan agreement executed on that date, the County agreed to lend the proceeds of the 1997 Facility Bond to the Organization to construct the facility.

On December 16, 2011, the County issued a $4,500,000 revenue bond (the 2011 Facility Bond) to finance the construction of a job training and wellness center for adults with disabilities. Under a loan agreement executed on that date, the County agreed to lend the proceeds of the 2011 Facility Bond to the Organization to construct the facility.

The guaranty agreements executed by the Organization concurrently with the issuance of the bonds contain certain restrictive covenants, including, among other things, requirements to maintain a debt service coverage ratio of not less than 1.00 to 1.00. Management is not aware of any violations of any covenants during the years ended June 30, 2018 and 2017.

The Organization's long-term obligations at June 30, are as follows:

	2018	2017
$6,000,000 revenue bond payable, dated October 1, 1997; fixed interest rate of 2.02% through October 2018; principal payments through October 2018 at varying amounts; secured by a mortgage on certain buildings and land with a net book value of $6,238,458 at June 30, 2018.	$ 64,878	$ 425,861
$4,500,000 revenue bond payable, dated December 16, 2011; fixed interest rates ranging between 2.25% and 5.00% through December 2036; principal payments through December 2036 at varying amounts; secured by a mortgage on certain buildings and land with a net book value of $8,397,738 at June 30, 2018.	3,915,943	4,045,997
	$ 3,980,821	$ 4,471,858

Scheduled principal payments for these long-term obligations during the fiscal years subsequent to June 30, 2018, are as follows:

2019	$ 289,571
2020	135,000
2021	137,917
2022	148,750
2023	160,833
Thereafter	3,108,750
	$ 3,980,821

NOTE 9: CAPITAL LEASE OBLIGATIONS

On May 27, 2015, the Organization entered into an equipment lease agreement to acquire new computer equipment, requiring 36 monthly payments with the term beginning on the date the equipment was delivered. The equipment was initially recorded at the present value of the future minimum lease payments with effective interest rate of 4.49%.

Also, on May 27, 2015, the Organization entered into an equipment lease agreement to acquire a new cooling unit, requiring 60 monthly payments with the term beginning on the date the equipment was delivered. The unit was initially recorded at the present value of the future minimum lease payments with effective interest rate of 6.80%.

The equipment and unit are being amortized over their useful lives, which management estimates to be three and fifteen years, respectively. The net book value of the equipment being amortized was approximately $93,800 and $172,200, respectively, at June 30, 2018 and 2017. Minimum lease payments for these capital leases during fiscal years subsequent to June 30, 2018, are as follows:

2019	$ 43,578
2020	43,578
2021	18,158
	105,314
Amount representing interest	(11,518)
Present value of minimum lease payments	$ 93,796

Approximately $9,000 and $13,400 of interest related to these capital leases has been included in interest expense for the year ended June 30, 2018 and 2017, respectively.

NOTE 10: NET ASSETS

The costs of constructing Armistead's eighteen-unit apartment complex, Charlotte Garden's fourteen-unit apartment complex, Wilson Court II's fourteen-unit apartment complex, and Harold Court's fourteen-unit apartment complex were partially funded through capital advance awards provided by HUD under Section 811 of the National Affordable Housing Act of 1990, *Supportive Housing for Persons with Disabilities* (Section 811) and through direct subsidies provided by the Federal Home Loan Bank (FHLB).

Pursuant to the terms of the Capital Advance Agreements executed with HUD and the agreements executed with FHLB, the capital advances and subsidies bear no interest and are not required to be repaid, subject to continuing compliance requirements and as long as housing remains available to eligible individuals for a period of forty years. The capital advances are secured by mortgages on each of the apartment complexes and the land on which they are located. Since management considers the possibility of repayment of the capital advances and subsidies to be remote, these advances and subsidies were recognized as temporarily restricted support when received and are included in temporarily restricted net assets.

NOTE 10: NET ASSETS (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017, consist of the following:

	2018	2017
HUD capital advance - Armistead	$ 928,500	$ 928,500
HUD capital advance - Charlotte Gardens	902,800	902,800
HUD capital advance - Wilson Court II	1,237,500	1,237,500
HUD capital advance - Harold Court	1,491,000	1,491,000
FHLB direct subsidy - Wilson Court II	154,000	154,000
FHLB direct subsidy - Harold Court	98,000	98,000
Support restricted for:		
Supplies	29,722	20,000
Grand Prairie Child Development Center Endowment	140,568	112,097
	$ 4,982,090	$ 4,943,897

Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2018 and 2017, include approximately $65,000 of contributions received by the Organization, the corpus of which may not be used for any purpose other than investment in perpetuity, while the income earned may be used to enhance the independence or lifestyle of a disabled individual. The remaining balance of permanently restricted net assets of approximately $10,000 is attributable to the Infant Scholarship Fund, the income of which is used to provide financial assistance to those infants in the Organization’s outpatient therapy program whose families are unable to pay for needed services.

NOTE 11: RETIREMENT BENEFITS

The Organization provides a 403(b) salary deferral retirement plan that covers substantially all full-time employees. As approved by the Board of Directors, the Organization may elect to contribute up to 3.00% of each participating employee’s eligible compensation annually to the 403(b) plan. During the years ended June 30, 2018 and 2017, the Board of Directors approved a 3.00% match contribution to participating employees.

The Organization also provides a deferred compensation plan for its current and former President/CEO that provides periodic payments over an agreed-upon period after separation of service. As approved by the Board of Directors each year, the Organization may make contributions to this plan. During the year ended June 30, 2018 and 2017, the Board of Directors approved contributions of approximately $18,000 and $17,500, respectively. Plan assets totaled approximately $348,000 and $319,000, respectively, at June 30, 2018 and 2017, and are included in investments with an offsetting liability included in accrued expenses and other liabilities in the consolidated statements of financial position. The assets are held in the Organization’s name and are subject to claims of the Organization’s creditors.

NOTE 12: CONTINGENCIES

The Organization receives federal awards and state assistance designated for specific purposes that are subject to subsequent review and audit by federal and state funding sources. These reviews and audits could result in a requirement for reimbursement by the funding sources for amounts disallowed under the terms and conditions of the related contracts and grants. It is the opinion of management that such disallowances, if any, would not be significant to the Organization's consolidated financial statements.

NOTE 13: SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 27, 2019, the date the consolidated financial statements were available to be issued. There were no events that met the criteria for accrual or disclosure.

Supplementary Schedules

Easterseals Arkansas

COMBINING SCHEDULE OF SUPPORT, REVENUE AND DIRECT EXPENSES
Year Ended June 30, 2018

	Program Services			Supporting Services			Total
	Children	Adult	Total Program Services	Administration	Fundraising	Total Supporting Services	
SUPPORT, REVENUE AND GAINS (LOSSES)							
Fees and Grants from Government Agencies							
Medicaid	$ 9,538,066	$ 8,707,539	**$ 18,245,605**	$ -	$ -	**$ -**	**$ 18,245,605**
Federal awards	1,270,003	726,050	**1,996,053**	-	-	**-**	**1,996,053**
State assistance	334,403	167,662	**502,065**	-	-	**-**	**502,065**
Public Support							
Contributions	19,068	11,113	**30,181**	130	453,950	**454,080**	**484,261**
Special events	-	-	**-**	-	990,624	**990,624**	**990,624**
Other							
Private pay and insurance	757,906	112,701	**870,607**	-	-	**-**	**870,607**
Workshop fees	216,292	-	**216,292**	-	-	**-**	**216,292**
Contract service fees	460,321	-	**460,321**	-	-	**-**	**460,321**
Rental income	-	158,834	**158,834**	12,625	-	**12,625**	**171,459**
Investment income	-	596	**596**	4,759	46,243	**51,002**	**51,598**
Gain (loss) on disposal of property and equipment	-	-	**-**	(1,828)	-	**(1,828)**	**(1,828)**
Net appreciation in fair value of investments	-	-	**-**	16,171	39,190	**55,361**	**55,361**
Miscellaneous	1,234	4,879	**6,113**	618	562	**1,180**	**7,293**
Total Support, Revenue and Gains (Losses)	12,597,293	9,889,374	**22,486,667**	32,475	1,530,569	**1,563,044**	**24,049,711**

See Independent Auditor's Report.

Easterseals Arkansas

COMBINING SCHEDULE OF SUPPORT, REVENUE AND DIRECT EXPENSES *(Continued)*
Year Ended June 30, 2018

	Program Services			Supporting Services			Total
	Children	Adult	Total Program Services	Administration	Fundraising	Total Supporting Services	
DIRECT EXPENSES							
Salaries	$ 7,284,837	$ 6,175,875	**$ 13,460,712**	$ 922,496	$ 246,794	**$ 1,169,290**	**$ 14,630,002**
Payroll taxes and benefits	1,108,753	917,761	**2,026,514**	141,622	45,075	**186,697**	**2,213,211**
Professional fees	1,136,831	317,008	**1,453,839**	485,679	36,734	**522,413**	**1,976,252**
Supplies	660,636	209,148	**869,784**	56,261	282,607	**338,868**	**1,208,652**
Taxes and licenses	321,426	80,738	**402,164**	25,565	-	**25,565**	**427,729**
Telephone	54,924	45,314	**100,238**	20,396	1,424	**21,820**	**122,058**
Postage and shipping	3,747	2,703	**6,450**	4,552	3,547	**8,099**	**14,549**
Occupancy	184,736	106,052	**290,788**	23,344	5,122	**28,466**	**319,254**
Insurance	81,290	73,011	**154,301**	78,979	2,219	**81,198**	**235,499**
Printing	492	546	**1,038**	-	3,507	**3,507**	**4,545**
Transportation and travel	91,187	39,645	**130,832**	2,523	357	**2,880**	**133,712**
Employee recruitment/retention	24,153	23,611	**47,764**	7,688	553	**8,241**	**56,005**
Staff development	33,833	1,553	**35,386**	6,221	-	**6,221**	**41,607**
Specific assistance to individuals	-	276,526	**276,526**	2,963	-	**2,963**	**279,489**
National dues and subscriptions	-	-	**-**	38,940	-	**38,940**	**38,940**
Other dues and subscriptions	11,280	1,109	**12,389**	22,114	-	**22,114**	**34,503**
Repairs and maintenance	186,490	164,154	**350,644**	15,383	4,399	**19,782**	**370,426**
Interest	9,561	172,891	**182,452**	8,672	-	**8,672**	**191,124**
Miscellaneous	(325)	325	**-**	2,804	-	**2,804**	**2,804**
Provision for uncollectible accounts	97,855	18,116	**115,971**	-	2,500	**2,500**	**118,471**
Depreciation and amortization	304,461	361,759	**666,220**	57,483	10,462	**67,945**	**734,165**
Total Direct Expenses	11,596,167	8,987,845	**20,584,012**	1,923,685	645,300	**2,568,985**	**23,152,997**
Excess of Revenue and Support over Direct Expenses/(Excess of Direct Expenses over Revenue and Support)	$ 1,001,126	$ 901,529	$ 1,902,655	$ (1,891,210)	$ 885,269	$ (1,005,941)	$ 896,714

See Independent Auditor's Report.

Easterseals Arkansas

SCHEDULE OF SUPPORT, REVENUE AND DIRECT EXPENSES

Children Services Division

Year Ended June 30, 2018

	Outpatient Therapy	LR Preschool	Grand Prairie CDC	Outreach	The Academy	Education	Residential	Total
SUPPORT, REVENUE AND GAINS								
Fees and Grants from Government Agencies								
Medicaid	$ 1,720,210	$ 1,169,896	$ 514,739	$ -	$ -	$ -	$ 6,133,221	**$ 9,538,066**
Federal awards	-	10,757	-	1,259,246	-	-	-	**1,270,003**
State assistance	-	-	-	53,000	-	140,113	141,290	**334,403**
Public Support								
Contributions	12,654	547	4,651	-	500	-	716	**19,068**
Other								
Private pay and insurance	396,631	104,918	11,060	-	163,456	-	81,841	**757,906**
Workshop fees	-	-	-	216,292	-	-	-	**216,292**
Contract service fees	-	-	-	-	-	460,321	-	**460,321**
Miscellaneous	40	1,194	-	-	-	-	-	**1,234**
Total Support, Revenue and Gains	2,129,535	1,287,312	530,450	1,528,538	163,956	600,434	6,357,068	**12,597,293**
DIRECT EXPENSES								
Salaries	1,256,974	987,100	329,512	928,506	214,052	354,237	3,214,456	**7,284,837**
Payroll taxes and benefits	180,890	141,676	63,978	138,027	26,749	54,729	502,704	**1,108,753**
Professional fees	392,508	145,573	47,591	55,505	23,589	22,569	449,496	**1,136,831**
Supplies	28,223	82,128	47,700	90,410	9,666	8,234	394,275	**660,636**
Taxes and licenses	-	-	-	-	-	-	321,426	**321,426**
Telephone	6,147	4,210	15,267	5,814	4,100	2,685	16,701	**54,924**
Postage and shipping	800	478	290	405	54	13	1,707	**3,747**
Occupancy	19,306	19,614	20,054	12,031	16,724	11,555	85,452	**184,736**
Insurance	7,101	8,495	3,868	10,516	6,842	4,381	40,087	**81,290**

(Continued)

Easterseals Arkansas

SCHEDULE OF SUPPORT, REVENUE AND DIRECT EXPENSES *(Continued)*
Children Services Division (Continued)
Year Ended June 30, 2018

	Outpatient Therapy	LR Preschool	Grand Prairie CDC	Outreach	The Academy	Education	Residential	Total
DIRECT EXPENSES *(Continued)*								
Printing	$ 256	$ 134	$ -	$ -	$ 102	$ -	$ -	**$ 492**
Transportation and travel	6,333	212	6,618	63,383	1,351	102	13,188	**91,187**
Employee recruitment/retention	1,699	6,302	2,229	777	1,826	1,189	10,131	**24,153**
Staff development	5,714	2,569	471	14,634	2,485	1,777	6,183	**33,833**
Other dues and subscriptions	3,121	130	50	3,976	800	-	3,203	**11,280**
Repairs and maintenance	13,856	18,018	2,765	13,587	19,537	1,545	117,182	**186,490**
Interest	4,604	-	-	-	-	625	4,332	**9,561**
Miscellaneous	390	1,565	975	(5,545)	1,365	925	-	**(325)**
Provision for uncollectible accounts	60,500	22,500	9,000	-	1,000	-	4,855	**97,855**
Depreciation and amortization	32,310	35,118	11,356	62,330	125	15,227	147,995	**304,461**
Total Direct Expenses	2,020,732	1,475,822	561,724	1,394,356	330,367	479,793	5,333,373	**11,596,167**
ALLOCATION OF ADMINISTRATIVE COST	213,998	179,127	48,391	120,119	28,460	41,333	459,459	**1,090,887**
Total Expenses and Allocation	2,234,730	1,654,949	610,115	1,514,475	358,827	521,126	5,792,832	**12,687,054**
	$ (105,195)	$ (367,637)	$ (79,665)	$ 14,063	$ (194,871)	$ 79,308	$ 564,236	**$ (89,761)**

See Independent Auditor's Report.

Easterseals Arkansas

SCHEDULE OF SUPPORT, REVENUE AND DIRECT EXPENSES

Adult Services Division

Year Ended June 30, 2018

	Adult Day Program	Residential	Community Services	Armistead Apartments	Charlotte Gardens Apartments	Wilson Court II Apartments	Harold Court Apartments	Total
SUPPORT, REVENUE AND GAINS								
Fees and Grants from Government Agencies								
Medicaid	$ 1,444,495	$ 733,102	$ 6,529,942	$ -	$ -	$ -	$ -	**$ 8,707,539**
Federal awards	422,015	-	-	95,051	63,473	89,664	55,847	**726,050**
State assistance	167,662	-	-	-	-	-	-	**167,662**
Public Support								
Contributions	11,100	-	13	-	-	-	-	**11,113**
Other								
Private pay and insurance	26,122	86,579	-	-	-	-	-	**112,701**
Rental income	-	-	-	40,559	46,566	34,488	37,221	**158,834**
Investment income	-	-	-	122	151	161	162	**596**
Miscellaneous	1,879	-	-	1,425	400	1,075	100	**4,879**
Total Support, Revenue and Gains	2,073,273	819,681	6,529,955	137,157	110,590	125,388	93,330	**9,889,374**
DIRECT EXPENSES								
Salaries	1,025,881	390,611	4,599,503	40,559	43,071	38,619	37,631	**6,175,875**
Payroll taxes and benefits	177,841	62,115	655,533	5,258	6,368	4,746	5,900	**917,761**
Professional fees	193,317	15,424	53,267	13,750	13,750	13,750	13,750	**317,008**
Supplies	119,516	49,837	17,517	5,707	5,601	5,535	5,435	**209,148**
Taxes and licenses	-	80,738	-	-	-	-	-	**80,738**
Telephone	20,705	3,987	10,074	2,250	2,247	2,236	3,815	**45,314**
Postage and shipping	448	336	1,500	171	93	71	84	**2,703**
Occupancy	43,346	12,703	6,723	14,388	10,186	10,644	8,062	**106,052**
Insurance	29,619	7,409	2,913	9,526	8,082	8,100	7,362	**73,011**
Printing	306	-	-	60	60	60	60	**546**
Transportation and travel	14,924	5,402	14,798	765	1,639	1,406	711	**39,645**
Employee recruitment/retention	2,692	911	19,571	208	102	113	14	**23,611**

(Continued)

See Independent Auditor's Report.

Easterseals Arkansas

SCHEDULE OF SUPPORT, REVENUE AND DIRECT EXPENSES *(Continued)*
Adult Services Division (Continued)
Year Ended June 30, 2018

	Adult Day Program	Residential	Community Services	Armistead Apartments	Charlotte Gardens Apartments	Wilson Court II Apartments	Harold Court Apartments	Total
DIRECT EXPENSES *(Continued)*								
Staff development	$ 520	$ 648	$ 341	$ 11	$ 11	$ 11	$ 11	**$ 1,553**
Specific assistance to individuals	-	-	276,526	-	-	-	-	**276,526**
Other dues and subscriptions	625	484	-	-	-	-	-	**1,109**
Repairs and maintenance	30,071	18,727	5,773	32,799	36,740	20,600	19,444	**164,154**
Interest	172,891	-	-	-	-	-	-	**172,891**
Miscellaneous	(84,517)	84,842	-	-	-	-	-	**325**
Provision for uncollectible accounts	2,000	500	15,051	565	-	-	-	**18,116**
Depreciation and amortization	194,109	17,477	14,116	25,818	27,363	36,654	46,222	**361,759**
Total Direct Expenses	1,944,294	752,151	5,693,206	151,835	155,313	142,545	148,501	**8,987,845**
ALLOCATION OF ADMINISTRATIVE COST	167,495	64,799	508,264	13,080	13,379	12,280	12,797	**792,094**
Total Expenses and Allocation	2,111,789	816,950	6,201,470	164,915	168,692	154,825	161,298	**9,779,939**
	$ (38,516)	$ 2,731	$ 328,485	$ (27,758)	$ (58,102)	$ (29,437)	$ (67,968)	**$ 109,435**

See Independent Auditor's Report.

Easterseals Arkansas

SCHEDULE OF PROGRAM UNITS OF SERVICE
Year Ended June 30, 2018

	Unit of Service	Number of Program Units of Service Provided: Medicaid	Federal Awards	State Awards	Private Pay	Total
40-bed residential:						
ICF/MR	Day	14,532	-	-	-	14,532
RSPD	Day	21	-	-	-	21
10-bed residential ICF/MR	Day	3,650	-	-	-	3,650
Adult development	Hour	135,939	-	6,901	672	143,512
Preschool	Hour	90,946	-	-	-	90,946
Transportation	Mile	1,968	-	-	-	1,968
Transportation	Day	-	-	-	223	223
Work activity	Hour	-	-	18,844	-	18,844
USDA	Meal	-	51,089	-	432	51,521

See Independent Auditor's Report.

Other Reports
And
Supplemental Information

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*

The Board of Directors
Easterseals Arkansas
Little Rock, Arkansas

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 consolidated financial statements of **Easterseals Arkansas** and affiliates (collectively, "**the Organization**"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 27, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 the Organization'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 and therefore, material weaknesses or significant deficiencies in internal control may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness (2018-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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.

Landmark PLC
Certified Public Accountants

March 27, 2019
Little Rock, Arkansas

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Directors
Easterseals Arkansas
Little Rock, Arkansas

Report on Compliance for Each Major Federal Program

We have audited the compliance of **Easterseals Arkansas** and affiliates (collectively "**the Organization**") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2018. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness *in internal control over compliance*, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Landmark PLC
Certified Public Accountants

March 27, 2019
Little Rock, Arkansas

Easterseals Arkansas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

	Federal CFDA Number	Federal Expenditures
EXPENDITURES		
U.S. Department of Agriculture		
Passed through Arkansas Department of Human Services:		
DCCECE - Child and Adult Care Food Program	10.558	107,958
U.S. Department of Housing and Urban Development		
Supportive Housing for Persons with Disabilities (Section 811) – Rental Assistance (Armistead Apartments, Inc.)	14.181	$ 95,051
Supportive Housing for Persons with Disabilities (Section 811) – Rental Assistance (Charlotte Gardens, Inc.)	14.181	63,473
Supportive Housing for Persons with Disabilities (Section 811) – Rental Assistance (Wilson Court II)	14.181	89,664
Supportive Housing for Persons with Disabilities (Section 811) – Rental Assistance (Harold Court)	14.181	55,847
Total U.S. Department of Housing and Urban Development		304,035
U.S. Department of Education		
Passed through Arkansas Department of Education:		
Special Education – Grants to States (IDEA, Part B):		
Outreach	84.027	1,259,246
Passed through Arkansas Rehabilitation Services:		
Rehabilitation Services – Vocational Rehabilitation Grants to States:		
Academics, Community, Career Development and Employment program	84.126	67,682
High School Transition	84.126	137,915
Supportive Employment	84.126	46,630
		252,227
Total U.S. Department of Education		1,511,473
U.S. Department of Health and Human Services		
Passed through Arkansas Department of Human Services:		
Child Care and Development Block Grant	93.575	2,062
Foster Care – Title IV-E	93.658	6,280
Social Services Block Grant - Service Operational Contract	93.667	61,830
DAAS - Money Follows the Person	93.791	2,415
Total U.S. Department of Health and Human Services		72,587
Total Expenditures		$ 1,996,053

(Continued)

See Independent Auditor's Report.

Easterseals Arkansas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS *(Continued*)
Year Ended June 30, 2018

	Federal CFDA Number	Federal Expenditures
CAPITAL ADVANCES		
U.S. Department of Housing and Urban Development		
Supportive Housing for Persons with Disabilities (Section 811) – Capital Advance (Armistead)	14.181	$ 928,500
Supportive Housing for Persons with Disabilities (Section 811) – Capital Advance (Charlotte Gardens)	14.181	902,800
Supportive Housing for Persons with Disabilities (Section 811) – Capital Advance (Wilson Court II)	14.181	1,237,500
Supportive Housing for Persons with Disabilities (Section 811) – Capital Advance (Harold Court)	14.181	1,491,000
Total Capital Advances		$ 4,559,800

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal activity under programs of the Federal government during the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the consolidated financial position, consolidated changes in net assets or consolidated cash flows of the Organization.

Medicaid reimbursements paid to providers are defined as contracts for services and not federal awards; therefore they are not covered by the reporting requirements of the Uniform Guidance and are not included in the Schedule. Total Medicaid funding for the year ended June 30, 2018 was $18,245,605.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Capital advances outstanding are required to be reported on the Schedule even though they were not awarded during the current year due to continuing compliance requirements that must be adhered to by the Organization.

NOTE 3: INDIRECT COST RATE

The Organization has not elected to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance, but rather the rates established directly with each of the respective funding agencies.

See Independent Auditor's Report.

Easterseals Arkansas

SCHEDULE OF STATE ASSISTANCE
Year Ended June 30, 2018

	Revenues	Expenditures
STATE ASSISTANCE		
Arkansas Department of Human Services		
Division of Developmental Disabilities Services –		
Service Operational Contract	$ 99,398	$ 99,398
Foster Care - State	141,290	141,290
Total Arkansas Department of Human Services	240,688	240,688
Arkansas Department of Education		
Arkansas Department of Education	193,113	193,113
Total Arkansas Department of Education	193,113	193,113
Arkansas Department of Career Education		
Passed through Arkansas Rehabilitation Services		
Vocational Rehabilitation Grants		
Academics, Community, Career Development and		
Employment program	18,318	18,318
High School Transition	37,326	37,326
Supportive Employment	12,620	12,620
Total Arkansas Department of Career Education	68,264	68,264
Total State Assistance	$ 502,065	$ 502,065

See Independent Auditor's Report.

Easterseals Arkansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

Section I - Summary of Auditor's Results

- **Type of Auditor's Report Issued - Consolidated Financial Statements**
  Unmodified opinion

- **Internal Control - Consolidated Financial Statements**
  A material weakness was identified during the audit of the financial statements.

- **Material Noncompliance - Consolidated Financial Statements**
  None

- **Internal Control - Major Programs**
  None

- **Type of Report Issued - Compliance**
  Unmodified opinion

- **Audit Findings Under the Uniform Guidance**
  None

- **Major Programs**
  - U.S. Department of Housing and Urban Development, Supportive Housing for Persons with Disabilities (Section 811), CFDA #14.181
  - U.S. Department of Education, Passed through Arkansas Rehabilitation Services, Vocational Rehabilitation Grants to States, CFDA #84.126

- **Threshold for Distinguishing between Type A and Type B Programs**
  $750,000

- **Type of Auditee**
  High-risk auditee

Section II - Audit Findings - Consolidated Financial Statement

Material Weakness

Finding	**2018-1**
Condition	During the year ended June 30, 2018, we noted the misuse of one of the Organization's credit cards by an employee. The employee was able to make unapproved charges to a credit card due to the employee being the one that received and reconciled the monthly statements, made payments and posted entries to the general ledger system for the credit card accounts without complete management review and approval.
Criteria and Cause	Review and approval is an integral part of any internal control system to ensure disbursements are authorized and for valid business expenditures.
Effect	A lack of review and approval increases the risk that errors or fraud may occur and not be detected in a timely manner.
Recommendation	We recommend that the organization implement procedures to ensure unauthorized employees do not gain access to company credit cards. In addition, we recommend that management ensure procedures are in place so that supporting documentation for all credit card transactions are submitted, reviewed and agreed to credit card statements each month by a member of management and proper review and approval of credit card statements is performed before payment.
Response	Management has taken steps to develop and implement new procedures specific to the access and use of the organization's credit cards that requires the review and approval of the organization's credit card activity and payments by a proper member of management prior to payment.

Section III - Finding and Questioned Costs – Major Federal Award Program Audit

None