

Easter Seals, Inc. and Easter Seals Foundation

Consolidated Financial Report
December 31, 2012

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Independent Auditor's Report

To the Board of Directors
Easter Seals
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Easter Seals, Inc. (an Ohio not-for-profit corporation) and Easter Seals Foundation (collectively, "Easter Seals") which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated 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 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the consolidated 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 consolidated 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 reasonable basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Easter Seals as of December 31, 2012 and 2011, and the changes in its net assets, its cash flows and its functional expenses for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Chicago, Illinois
March 14, 2013

Easter Seals, Inc. and Easter Seals Foundation

Consolidated Statements of Financial Position
December 31, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 715,600	\$ 563,500
Investments	16,201,500	14,778,700
Accounts receivable from affiliates, less allowance for doubtful accounts of 2012 \$110,000; 2011 \$140,000	307,100	367,800
Government grants and contract receivable	2,078,900	2,696,700
Pledges receivable, net	1,809,800	967,100
Other accounts receivable, less allowance for doubtful accounts of 2012 \$13,000; 2011 \$13,000	1,084,800	922,600
Prepaid expenses	338,800	486,700
Total current assets	22,536,500	20,783,100
Long-Term Assets		
Fixed assets, net	838,400	914,100
Investments for charitable gift annuities	1,759,900	1,402,000
Pledges receivable, net	1,446,800	881,100
Beneficial interest in trusts	2,620,000	2,397,400
Total long-term assets	6,665,100	5,594,600
Total assets	\$ 29,201,600	\$ 26,377,700
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 6,640,100	\$ 6,900,900
Accounts payable to affiliates	3,158,500	1,882,100
Capital lease obligation	37,000	49,100
Line of credit	2,182,300	2,382,400
Note payable	575,000	575,000
Total current liabilities	12,592,900	11,789,500
Long-Term Liabilities		
Capital lease obligation	33,700	67,800
Accounts payable to affiliates	751,900	380,500
Charitable gift annuities	855,400	756,900
Deferred rent and other	665,100	666,800
Note payable	3,450,000	3,154,000
Pension liability	8,595,100	7,476,800
Total long-term liabilities	14,351,200	12,502,800
Total liabilities	26,944,100	24,292,300
Net Assets		
Unrestricted:		
Available for operations	6,567,100	7,088,800
Net actuarial pension loss	(11,849,900)	(10,052,900)
Unrestricted total	(5,282,800)	(2,964,100)
Temporarily restricted	5,742,700	3,497,600
Permanently restricted	1,797,600	1,551,900
Total net assets	2,257,500	2,085,400
Total liabilities and net assets	\$ 29,201,600	\$ 26,377,700

See Notes to Consolidated Financial Statements.

Easter Seals, Inc. and Easter Seals Foundation

Consolidated Statement of Activities and Changes in Net Assets
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating				
Public support:				
Contributions	\$ 41,505,100	\$ 10,270,600	\$ 22,700	\$ 51,798,400
Special events	32,500	-	-	32,500
Change in value of split interest agreements	(39,900)	65,400	147,700	173,200
Government grants	22,251,200	-	-	22,251,200
In-kind contributions	7,048,100	-	-	7,048,100
Total public support	70,797,000	10,336,000	170,400	81,303,400
Revenues:				
Membership fees from affiliates	3,223,700	-	-	3,223,700
Sales and services to affiliates	1,176,600	-	-	1,176,600
Government contract revenue	3,399,000	-	-	3,399,000
Investment returns	2,236,600	-	-	2,236,600
Net unrealized gains on perpetual trusts	-	-	75,300	75,300
Miscellaneous revenue	797,600	-	-	797,600
Net assets released from restrictions	8,090,900	(8,090,900)	-	-
Total revenues	18,924,400	(8,090,900)	75,300	10,908,800
Total public support and revenues	89,721,400	2,245,100	245,700	92,212,200
Expenses:				
Program services:				
Services for affiliates:				
Program development	35,284,800	-	-	35,284,800
Professional education and training	4,053,800	-	-	4,053,800
Fundraising advisory	5,583,700	-	-	5,583,700
Management advisory	3,669,800	-	-	3,669,800
Total services for affiliates	48,592,100	-	-	48,592,100
Public health education	18,337,700	-	-	18,337,700
Advocacy for persons with disabilities and research	4,307,900	-	-	4,307,900
Total program services	71,237,700	-	-	71,237,700
Supporting services:				
Fundraising	15,988,200	-	-	15,988,200
Management and general	3,017,200	-	-	3,017,200
Total supporting services	19,005,400	-	-	19,005,400
Total operating expenses	90,243,100	-	-	90,243,100
Public support and revenues less operating expenses	(521,700)	2,245,100	245,700	1,969,100

Easter Seals, Inc. and Easter Seals Foundation

Consolidated Statement of Activities and Changes in Net Assets (Continued)
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Nonoperating				
Pension liability adjustments other than net periodic benefit cost	\$ (1,797,000)	\$ -	\$ -	\$ (1,797,000)
Change in net assets	(2,318,700)	2,245,100	245,700	172,100
Net assets, beginning of year	(2,964,100)	3,497,600	1,551,900	2,085,400
Net assets, end of year	\$ (5,282,800)	\$ 5,742,700	\$ 1,797,600	\$ 2,257,500

See Notes to Consolidated Financial Statements.

Easter Seals, Inc. and Easter Seals Foundation

Consolidated Statement of Activities and Changes in Net Assets
Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating				
Public Support:				
Contributions	\$ 47,923,700	\$ 2,983,200	\$ 1,014,900	\$ 51,921,800
Special events	34,800	-	-	34,800
Change in value of split interest agreements	(57,400)	(5,600)	12,100	(50,900)
Government grants	27,000,400	-	-	27,000,400
In-kind contributions	5,758,600	-	-	5,758,600
Total public support	80,660,100	2,977,600	1,027,000	84,664,700
Revenues:				
Membership fees from affiliates	3,304,700	-	-	3,304,700
Sales and services to affiliates	1,098,800	-	-	1,098,800
Government contract revenue	2,060,400	-	-	2,060,400
Investment loss	(523,200)	-	-	(523,200)
Miscellaneous revenue	1,518,700	-	-	1,518,700
Net assets released from restrictions	1,406,700	(1,406,700)	-	-
Total revenues	8,866,100	(1,406,700)	-	7,459,400
Total public support and revenues	89,526,200	1,570,900	1,027,000	92,124,100
Expenses:				
Program services:				
Services for affiliates:				
Program development	37,299,700	-	-	37,299,700
Professional education and training	4,102,200	-	-	4,102,200
Fundraising advisory	5,707,600	-	-	5,707,600
Management advisory	3,584,400	-	-	3,584,400
Total services for affiliates	50,693,900	-	-	50,693,900
Public health education	18,513,800	-	-	18,513,800
Advocacy for persons with disabilities and research	3,600,700	-	-	3,600,700
Total program services	72,808,400	-	-	72,808,400
Supporting services:				
Fundraising	15,472,600	-	-	15,472,600
Management and general	3,196,900	-	-	3,196,900
Total supporting services	18,669,500	-	-	18,669,500
Total operating expenses	91,477,900	-	-	91,477,900
Public support and revenues less operating expenses	(1,951,700)	1,570,900	1,027,000	646,200

Easter Seals, Inc. and Easter Seals Foundation

Consolidated Statement of Activities and Changes in Net Assets (Continued)
Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Nonoperating				
Pension liability adjustments other than net periodic benefit cost	\$ (4,114,200)	\$ -	\$ -	\$ (4,114,200)
Change in net assets	(6,065,900)	1,570,900	1,027,000	(3,468,000)
Net assets, beginning of year	3,101,800	1,926,700	524,900	5,553,400
Net assets, end of year	\$ (2,964,100)	\$ 3,497,600	\$ 1,551,900	\$ 2,085,400

See Notes to Consolidated Financial Statements.

Easter Seals, Inc. and Easter Seals Foundation

Consolidated Statement of Functional Expenses

Year Ended December 31, 2012

	Program Services											
	Affiliates					Headquarters						
	Program Development	Professional		Management Advisory	Total Services for Affiliates	Advocacy for			Total Program Services	Total Fundraising	Management and General	Total Expenses
		Education and Training	Fundraising Advisory			Public Health Education	Persons with Disabilities and Research	Total Headquarter's Programs				
Salaries and related expenses	\$ 3,354,900	\$ 2,164,400	\$ 2,745,000	\$ 2,368,500	\$ 10,632,800	\$ 481,800	\$ 237,000	\$ 718,800	\$ 11,351,600	\$ 702,200	\$ 2,063,900	\$ 14,117,700
Mail production and services	-	-	26,500	-	26,500	13,826,100	-	13,826,100	13,852,600	14,925,300	-	28,777,900
Grants and awards	28,132,200	7,500	147,300	-	28,287,000	-	200	200	28,287,200	7,300	1,900	28,296,400
Professional fees	2,394,100	895,500	918,200	344,200	4,552,000	232,700	99,200	331,900	4,883,900	187,700	301,500	5,373,100
Printing and media	159,200	67,800	862,500	151,300	1,240,800	3,556,500	3,872,200	7,428,700	8,669,500	17,200	14,700	8,701,400
Travel	262,400	97,500	142,900	153,500	656,300	21,800	13,600	35,400	691,700	29,500	50,100	771,300
Conferences and meetings	183,200	318,100	205,500	294,300	1,001,100	83,600	9,200	92,800	1,093,900	35,700	99,300	1,228,900
Occupancy	436,400	306,700	275,700	196,300	1,215,100	62,500	37,900	100,400	1,315,500	49,700	223,100	1,588,300
Telephone and communications	76,300	89,600	53,400	48,300	267,600	12,500	5,600	18,100	285,700	6,900	23,700	316,300
Office supplies	48,900	14,600	16,900	13,900	94,300	10,300	5,400	15,700	110,000	4,300	14,000	128,300
Postage and shipping	52,700	25,300	16,000	6,600	100,600	3,700	600	4,300	104,900	1,800	6,400	113,100
Repair and maintenance	39,100	23,400	8,600	6,000	77,100	18,200	6,700	24,900	102,000	100	7,500	109,600
Miscellaneous	67,000	12,700	120,800	54,300	254,800	2,600	10,000	12,600	267,400	15,700	180,400	463,500
Depreciation and amortization	78,400	30,700	44,400	32,600	186,100	25,400	10,300	35,700	221,800	4,800	30,700	257,300
Total expenses	\$ 35,284,800	\$ 4,053,800	\$ 5,583,700	\$ 3,669,800	\$ 48,592,100	\$ 18,337,700	\$ 4,307,900	\$ 22,645,600	\$ 71,237,700	\$ 15,988,200	\$ 3,017,200	\$ 90,243,100

See Notes to Consolidated Financial Statements.

Easter Seals, Inc. and Easter Seals Foundation

Consolidated Statement of Functional Expenses

Year Ended December 31, 2011

	Program Services												
	Affiliates					Headquarters							
	Program Development	Professional	Fundraising Advisory	Management	Total	Public Health Education	Advocacy for		Total Headquarter's Programs	Total	Fundraising	Management and General	Total Expenses
		Education and Training		Advisory	Advisory		Services for Affiliates	Persons with Disabilities and Research		Program			
Salaries and related expenses	\$ 3,124,300	\$ 2,195,300	\$ 2,931,200	\$ 2,407,000	\$ 10,657,800	\$ 531,000	\$ 222,800	\$ 753,800	\$ 11,411,600	\$ 190,700	\$ 2,126,600	\$ 13,728,900	
Mail production and services	-	-	11,700	-	11,700	14,610,000	-	14,610,000	14,621,700	15,011,800	-	29,633,500	
Grants and awards	31,326,100	4,200	136,000	-	31,466,300	-	-	-	31,466,300	-	-	31,466,300	
Professional fees	1,481,200	862,500	884,200	256,200	3,484,100	214,700	64,400	279,100	3,763,200	192,800	368,900	4,324,900	
Printing and media	281,800	106,800	837,900	38,300	1,264,800	2,906,800	3,212,400	6,119,200	7,384,000	17,700	16,400	7,418,100	
Travel	225,100	92,400	88,600	184,500	590,600	22,200	15,200	37,400	628,000	6,900	61,300	696,200	
Conferences and meetings	213,500	315,800	280,200	346,600	1,156,100	95,700	14,500	110,200	1,266,300	15,400	163,800	1,445,500	
Occupancy	398,400	305,600	298,800	210,300	1,213,100	67,200	38,400	105,600	1,318,700	18,500	241,200	1,578,400	
Telephone and communications	55,300	95,900	42,400	41,700	235,300	8,900	4,000	12,900	248,200	2,400	25,600	276,200	
Office supplies	42,900	18,000	14,600	14,500	90,000	9,200	3,800	13,000	103,000	700	12,400	116,100	
Postage and shipping	37,700	26,200	23,600	9,200	96,700	3,800	500	4,300	101,000	1,300	10,500	112,800	
Repair and maintenance	44,200	26,200	11,100	7,500	89,000	20,400	6,400	26,800	115,800	-	10,100	125,900	
Miscellaneous	-	19,000	104,900	46,400	170,300	2,300	9,500	11,800	182,100	12,300	123,700	318,100	
Depreciation and amortization	69,200	34,300	42,400	22,200	168,100	21,600	8,800	30,400	198,500	2,100	36,400	237,000	
Total expenses	\$ 37,299,700	\$ 4,102,200	\$ 5,707,600	\$ 3,584,400	\$ 50,693,900	\$ 18,513,800	\$ 3,600,700	\$ 22,114,500	\$ 72,808,400	\$ 15,472,600	\$ 3,196,900	\$ 91,477,900	

See Notes to Consolidated Financial Statements.

Easter Seals, Inc. and Easter Seals Foundation

Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	\$ 172,100	\$ (3,468,000)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	257,300	237,000
Net unrealized and realized (gains) losses on investments	(2,203,200)	553,300
Net unrealized gains on perpetual trusts	(75,300)	-
Contributions of split-interest agreements	(27,500)	(1,340,500)
Change in value of split-interest agreements	(173,200)	50,900
Loss on disposal of property	4,300	4,100
Change in value of pension liability	2,621,300	5,044,900
Changes in assets and liabilities:		
Accounts receivable from affiliates	60,700	311,900
Government grants receivable	617,800	557,200
Pledges receivable, net	(1,408,400)	(1,381,500)
Other accounts receivable	(162,200)	(751,100)
Prepaid expenses	147,900	(207,400)
Beneficial interests in trusts and gift annuities, net	273,100	157,200
Accounts payable and accrued liabilities	(260,800)	(793,400)
Accounts payable to affiliates	1,647,800	(152,900)
Deferred rent and other	(1,700)	13,000
Payments on pension liability	(1,503,000)	(1,479,000)
Net cash used in operating activities	(13,000)	(2,644,300)
Cash Flows from Investing Activities		
Purchases of fixed assets	(185,900)	(224,000)
Purchases of investments	(7,224,900)	(1,298,500)
Proceeds from maturity or sale of investments	7,647,400	1,377,400
Net cash provided by (used in) investing activities	236,600	(145,100)
Cash Flows from Financing Activities		
Proceeds from notes payable	871,000	1,479,000
Payments on notes payable	(575,000)	-
Net (repayments) drawdowns on line of credit	(200,100)	1,353,500
Payments to annuitants	(121,200)	(129,500)
Payments on capital lease obligations	(46,200)	(21,100)
Net cash (used in) provided by financing activities	(71,500)	2,681,900
Net change in cash and cash equivalents	152,100	(107,500)
Cash and cash equivalents:		
Beginning of year	563,500	671,000
End of year	\$ 715,600	\$ 563,500
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 167,200	\$ 90,400
Supplemental Schedule of Noncash Investing and Financing Activities		
Capital lease obligations incurred for use of equipment	\$ -	\$ 21,600

See Notes to Consolidated Financial Statements.

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of the organization: Easter Seals is the leading non-profit provider of services for individuals with autism, developmental disabilities, physical and mental disabilities, and other special needs. For nearly a 100 years, Easter Seals, Inc. has been offering help and hope to children and adults living with disabilities and to their families. Easter Seals, Inc. is supported by Easter Seals Foundation (collectively referred to as "Easter Seals"), which raises funds to further Easter Seals Inc.'s initiatives and programs.

Through therapy, training, education and support services, Easter Seals creates life-changing solutions so that people with disabilities can live, learn, work and play in their communities.

Through its headquarters' office, 74 affiliates, and its global partners, Easter Seals provides services and support to 1,400,000 individuals with disabilities and support to their families across the United States, Puerto Rico, Australia, Mexico, and Canada.

Easter Seals, Inc. and its affiliates are each separately incorporated and are tax exempt under the provisions of Section 501(c)(3) of the U.S. Internal Revenue Code (or similar tax treaties in other countries, as applicable), and are therefore exempt from taxation under current income tax laws. Easter Seals' financial statements do not include the accounts of these affiliates because they do not meet the criteria requiring consolidation. Each affiliate is a separately incorporated entity, has its own independent board of directors, conducts service programs independent of those of Easter Seals, and maintains its own separate accounts. Each of the affiliates pays an annual membership fee to Easter Seals; membership agreements between Easter Seals and the affiliates describe various obligations, terms, and conditions of Easter Seals and its affiliates.

Easter Seals conducts a comprehensive national direct response fundraising and public education campaign (National Campaign) in accordance with Easter Seals' charitable goals and objectives outlined in its by-laws. Easter Seals does not serve as an agent for its affiliates in conducting the National Campaign, but rather raises funds for Easter Seals in cooperation with its affiliates. The National Campaign and the funds raised in the National Campaign are managed and distributed in accordance with the policies and procedural guidelines agreed to by Easter Seals and its affiliates.

Summary of Significant Accounting Policies

Accounting policies: Easter Seals follows accounting standards established by the Financial Accounting Standards Board (the FASB) to ensure consistent reporting of financial position, results of activities, and cash flows. References to Generally Accepted Accounting Principles (GAAP) in these footnotes are to the *FASB Accounting Standards Codification*, sometimes referred to as the Codification or ASC.

Basis of consolidation: The accompanying consolidated financial statements include the consolidated accounts of Easter Seals, Inc. and Easter Seals Foundation. Easter Seals, Inc. has a controlling financial interest and an economic interest in Easter Seals Foundation and, therefore, presents consolidated financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and cash equivalents: Cash and cash equivalents include highly liquid short-term investments with maturities of 90 days or less from the date of purchase with the exception of cash held for reinvestment which is included in investments.

Investments: Investments are in marketable securities and are recorded at fair value based on quoted market prices. Changes in fair value are recorded as unrealized gains (losses) and are included in investment return. Investments are exposed to various risks such as interest rate, market, and credit risks. It is at least reasonably possible that changes in values of investments will occur in the near term and that such changes could materially affect the amounts reported.

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Accounts receivable from affiliates: Affiliate receivables are carried at original invoice amount less an estimate for doubtful receivables (allowance) based on a monthly review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and considering historical experience. Affiliate receivables are written off when deemed uncollectible. Recoveries of affiliate receivables previously written off are recorded when received.

As required by the by-laws, any unpaid affiliate receivable balance, which became due and payable within any fiscal year, shall be paid by January 31 of the following fiscal year, unless Easter Seals approved an arrangement for payment at a later date. Non-payment of a past due account may result in a reclassification of the affiliate's membership status.

Fixed assets and intangible asset: Furniture, fixtures, computer equipment, software, and leasehold improvements are stated at cost. Contributions of long-lived assets are recorded at the estimated fair market value at the date of receipt and are recorded as unrestricted support unless the use of such contributed assets is restricted by a donor-imposed restriction. If donors contribute long-lived assets with stipulations as to how long the asset must be used or with any other restrictions, such contributions are reported as temporary restricted support. Certain computer equipment is leased under capital leases for three to five years, which requires Easter Seals to pay all maintenance costs. Expenditures for maintenance and repairs are expensed as incurred and expenditures for major renovations are capitalized.

Easter Seals regularly evaluates whether circumstances have occurred that would indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of such assets may not be recoverable. When factors indicate that such assets should be evaluated for possible impairment, Easter Seals uses an estimate of the undiscounted cash flows over the remaining life of the assets in measuring whether the assets are recoverable. In the opinion of management, no impairment adjustments were required at December 31, 2012 or 2011.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets. Leased assets' amortization is included in depreciation expense. The estimated useful lives are:

Leasehold improvements	7- 12 years
Furniture and fixtures	5-11 years
Computer equipment and software	3-5 years

Easter Seals' domain name is considered an intangible asset with an indefinite life. Easter Seals reviews the intangible asset for impairment on or about December 31 of each year. Recoverability for this asset is measured by comparing its carrying amount to the fair value. If the intangible is considered impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value. Easter Seals did not record any impairment charges during 2012 or 2011.

Pledges receivable: Pledges that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. Pledges receivable have been discounted using rates that approximate the risk associated with the ultimate collection of the receivable. The discount is amortized using an effective yield over the expected collection period of the receivable.

Beneficial interest in trusts: Easter Seals has been designated as the beneficiary of assets held in charitable lead and remainder trusts administered by other trustees. Easter Seals recognizes temporarily or permanently restricted contribution revenue and an asset for the present value of the estimated future benefits to be received when the trust assets are distributed. Adjustments to the receivable to reflect the revaluation of the present value of the estimated future payments to Easter Seals are recognized in the statement of activities as a change in value of split interest agreements.

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Easter Seals has also been designated as the beneficiary of perpetual irrevocable trusts which are administered by other trustees. Under the terms of the trusts, Easter Seals has the irrevocable right to receive all or a portion of the income earned on the trust assets in perpetuity. Easter Seals does not control the assets held by the outside trusts. The fair value of the beneficial interest in the trusts is recognized as an asset and as a permanently restricted contribution at the date the trust is established. Adjustments to the beneficial interest to reflect changes in the fair value are reflected in the statement of activities as net unrealized gains on perpetual trusts. Annual distributions from the trust are reported as investment returns in the statement of activities.

Charitable gift annuities: Annuity agreements are issued in exchange for a payment that constitutes part charitable contribution and part purchase of an annuity, providing for payments to the stated annuitants during their lifetimes. These agreements constitute a general obligation of Easter Seals. The gift portion of annuities and investment reserves in excess of liabilities are reported as a contribution in unrestricted net assets.

Net assets: The net assets of Easter Seals are reported as unrestricted, temporarily restricted, or permanently restricted. Unrestricted net assets are composed of all resources not included in restricted net assets, such as expendable resources used to support Easter Seals' core activities. All expenses are recorded as a reduction of unrestricted net assets.

Temporarily restricted net assets carry restrictions that expire upon passage of a prescribed period or upon the occurrence of a stated event as specified by the donor, at which time they are reclassified to unrestricted net assets and reported as net assets released from restrictions. Included in temporarily restricted net assets are gifts held by Easter Seals pending their use in accordance with donor stipulations and unexpended gifts from pledges and living trust agreements where the principal is expendable upon redemption or maturity. Contributions received with donor-imposed restrictions that are met in the same reporting period are reflected as an addition and reduction to temporarily restricted net assets.

Permanently restricted net assets are subject to donor-imposed restrictions that the principal be invested in perpetuity.

Contributions: Contributions are recognized when an unconditional promise to give is made (pledge receivable) or when cash is received, if an unconditional promise does not exist. Contributions include bequests, which are recorded at their estimated fair value when Easter Seals has received an unconditional promise to give. Easter Seals considers a bequest unconditional when the probate court declares the testamentary instrument valid and the proceeds are measurable.

Government grants and contract revenue: Government grant and contract revenue is recognized when earned, which is generally when qualifying expenses have been incurred and all other grant requirements have been met. Easter Seals receives a substantial amount of its operating support from the Federal Government. Any significant reduction in the level of this support could have an effect on Easter Seals' programs.

In-kind contributions: Easter Seals records, as in-kind contributions, contributions of fundraising material, informational material, or advertising, including media time or space for public service announcements or other purposes, that are used for Easter Seals' benefit and that encourage the public to contribute to Easter Seals or help Easter Seals communicate its message or mission. Easter Seals will not record a contribution in circumstances in which Easter Seals is unable to have an active involvement in determining and managing the message and the use of the materials. These contributions are recorded at fair value. The in-kind contributions are offset by like amounts included in public health education expense in the statement of activities and changes in net assets, as well as in printing and media expense in the statement of functional expenses.

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Membership fees from affiliates: Membership fees are recognized in the month for which the membership applies, and affiliates are invoiced at the beginning of each month. Monthly fees per affiliate include a base fee plus supplementary fees for major markets included in that affiliate's assigned territory. Major markets are defined as the most populous counties in the nation as determined by the July 2008 U.S. Census Bureau Population Estimates Program.

Sales and services to affiliates: Sales and services to affiliates are recognized when the related services are provided. Sales and services may include registration fees for events, website management fees, planned giving management, and various fees for Easter Seals articles.

Operating expenses: Operating expenses are presented in the statement of activities on a functional basis, classified according to the significant program activity related to the purpose for which Easter Seals exists or supporting service. Where expenses affect more than one area, they are allocated to the respective areas based on estimates made by management.

The significant activities are:

Program Development: Funds, leadership, and assistance directed to Easter Seals' affiliates to provide services for children and adults with autism and other disabilities through their centers. Primary services are medical rehabilitation, job training and employment, inclusive child care, adult day services, and camping and recreation. Building from Easter Seals' expertise, Easter Seals is focusing on four service areas of critical importance: young children, older adults, people living with autism, and military service members and veterans.

Professional Education and Training: Activities to improve the knowledge, skills, and critical judgment of affiliate staff, volunteers, caregivers, and other health and education professionals.

Fundraising Advisory: Training and consultation with Easter Seals' affiliates to strengthen their relationships with donors and make the general public aware of the needs of children and adults with disabilities and their families.

Management Advisory: Managing Easter Seals' brand and membership standards with affiliates; consulting on general management issues, including, Easter Seals' best practices for service delivery, board development, and doing business as a non-profit: finance and accounting, budgeting, strategic planning and personnel selection.

Advocacy with and for Persons with Disabilities and Research: Activities to assure equal access and opportunities for people with disabilities, and awards, grants, and/or activities to support studies or investigations in the physical and social sciences that seek new evidence-based knowledge to benefit children and adults with disabilities, their families, and the personnel that serve them.

Public Health Education: Creating a public awareness about individuals living with disabilities and the issues they face through multi-media public education campaigns, community advocacy, and by providing up-to-date resources about disabilities, disability awareness, opportunities, universal design, and other relevant topics. The primary focus is on young children, older adults, people living with autism, and military service members and veterans with disabilities.

Grants and awards: Grants and awards to affiliates for program development purposes are recognized as expense once a grant or award has been made. Grants and awards, which are payable beyond one year, are reported at the present value of their estimated future cash flows and have been discounted at 0.96%, which is commensurate with the risks involved with the ultimate payment of these obligations at the time the obligation is incurred. The discount is amortized using an effective yield over the expected life of the awards and grants contracts and is reflected as program service expense.

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Income taxes: Easter Seals is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law, except for taxes pertaining to unrelated business income, if any.

The accounting standard on accounting for uncertainty in income taxes 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, Easter Seals 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 Easter Seals and various positions related to the potential sources of unrelated business taxable income (UBIT). There were no unrecognized tax benefits identified or recorded as liabilities for the reporting periods presented in these financial statements.

Easter Seals files Form 990 in the U.S. federal jurisdiction and the state of Illinois. Easter Seals is generally no longer subject to examination by the Internal Revenue Service for years before 2009.

Use of estimates: The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results may differ from those estimates.

Reclassifications: Certain reclassifications were made to the 2011 accompanying financial statements to conform to the 2012 presentation. These reclassifications had no impact on the change in net assets as previously reported.

Subsequent events: Easter Seals has evaluated subsequent events for potential recognition and/or disclosure through March 14, 2013, the date the financial statements were available to be issued.

Note 2. Pledges Receivable

Donors' promises to give to Easter Seals, net of a discount to present value (ranging from 0.96% to 3.45%) are due to be collected as follows:

	2012	2011
Gross amounts due in:		
One year	\$ 1,832,800	\$ 967,100
One to five years	1,747,200	913,500
Subtotal	3,580,000	1,880,600
Less discount and allowance to present value	(323,400)	(32,400)
Total	<u>\$ 3,256,600</u>	<u>\$ 1,848,200</u>

The discount will be recognized as contribution revenue in 2013, 2014, and 2015 as the discount is amortized using an effective yield over the duration of each pledge.

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 3. Beneficial Interest in Trusts

Easter Seals' beneficial interest in charitable lead trusts is summarized as follows:

	Discount Rate	Annual Distribution	Remaining Years	Fair Value 2012	Fair Value 2011
2006 Charitable lead trust	1.05%	\$ 75,000	4	\$ 292,300	\$ 355,600
2010 Charitable lead trust	1.74%	4,100	7	27,700	29,300
2011 Charitable lead trust	1.82%	2,300	17	32,900	36,400
2011 Charitable lead trust	0.00%	-	1	10,900	20,600
2011 Charitable lead trust	0.00%	-	0	-	2,100
				<u>\$ 363,800</u>	<u>\$ 444,000</u>

Easter Seals' beneficial interest in charitable remainder trusts are summarized as follows:

	Discount Rate	Principal Amount	Remaining Years	Fair Value 2012	Fair Value 2011
1998 Charitable remainder trust	3.18%	\$ 209,700	21	\$ 108,700	\$ 71,700
1999 Charitable remainder trust	2.21%	1,000,000	19	660,200	512,500
2009 Charitable remainder trust	2.37%	374,200	18	86,500	87,900
2011 Charitable remainder trust	1.82%	260,100	17	191,400	156,100
2011 Charitable remainder trust	5.28%	31,000	6	11,800	10,100
2011 Charitable remainder trust	5.28%	86,300	6	24,900	51,900
2011 Charitable remainder trust	2.02%	56,300	1	55,200	48,600
				<u>\$ 1,138,700</u>	<u>\$ 938,800</u>

Easter Seals' beneficial interest in perpetual trusts is summarized as follows:

	Principal Amount	Easter Seals Interest	Fair Value 2012	Fair Value 2011
2011 Perpetual trust	\$ 742,200	100%	\$ 742,200	\$ 685,900
2011 Perpetual trust	2,966,600	10%	296,700	279,300
2011 Perpetual trust	826,600	6.25%	51,700	49,400
2012 Perpetual trust	537,600	5%	26,900	-
			<u>\$ 1,117,500</u>	<u>\$ 1,014,600</u>

Contribution revenue recognized in the consolidated statements of activities related to the above beneficial interest in trusts was \$27,500 and \$1,340,500 for the years ended December 31, 2012 and 2011, respectively.

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 4. Fixed Assets

Fixed assets are summarized by major classification, net of accumulated depreciation and amortization, as follows:

	2012	2011
Leasehold improvements	\$ 31,800	\$ 31,800
Furniture and fixtures	477,100	534,200
Computers, equipment and software	955,600	867,000
	<u>1,464,500</u>	<u>1,433,000</u>
Accumulated depreciation and amortization	(826,100)	(718,900)
Total fixed assets	638,400	714,100
Intangible asset	200,000	200,000
Total fixed assets and intangible asset	<u>\$ 838,400</u>	<u>\$ 914,100</u>

Software amortization expense for the years ended December 31, 2012 and 2011 was approximately \$15,400 and \$18,200, respectively. Total accumulated software amortization expense for the years ended December 31, 2012 and 2011, was approximately \$25,800 and \$69,200, respectively.

Note 5. Fair Value Disclosures

The Fair Value Measurements and Disclosures Topic of the Codification 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.

Easter Seals assesses the levels of the investments 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. For the year ended December 31, 2012, there were no such transfers.

For the years ended December 31, 2012 and 2011, 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 value of publicly traded mutual funds is based upon market quotations of national security exchanges.

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 5. Fair Value Disclosures (Continued)

Beneficial Interest in Trusts

Nonperpetual trusts are recorded at their estimated fair value based on the present value of the estimated future cash receipts from the trust. Future cash receipts are based on an income approach using internally developed models. Assumptions are made regarding the expected rate of return on investments in the trust, the discount rate, and the expected mortality of the individual(s) if the termination of the agreement is dependent on life expectancy. An expected rate of return on the investments in the trusts is estimated using historical investment returns. The expected mortality is estimated using the Center for Disease Control life tables. Each of these calculations is based on the fair value of the underlying assets of the trust. As the fair value of these trusts is derived from internal estimates of the present value of Easter Seals' interest in the underlying assets, the amounts ultimately received could differ from the amounts reflected in the historical financial statements.

Perpetual trusts are recorded at fair value based on Easter Seals' interest in the fair value of the underlying trust assets.

The following tables present Easter Seals' fair value hierarchy for the investments as of December 31, 2012 and 2011:

	2012			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Cash	\$ 78,600	\$ 78,600	\$ -	\$ -
Equity Securities:				
U.S. Large Cap Growth-Mutual Funds	4,031,300	4,031,300	-	-
U.S. Large Cap Value-Mutual Funds	842,400	842,400	-	-
U.S. Small & Mid Cap-Mutual Funds	1,557,200	1,557,200	-	-
International Mutual Funds	5,252,100	5,252,100	-	-
Total Equity Securities	11,683,000	11,683,000	-	-
Fixed Income Securities:				
U.S. Corporate Bond Mutual Funds	5,969,500	5,969,500	-	-
International Bond Mutual Funds	230,300	230,300	-	-
Total Fixed Income Securities	6,199,800	6,199,800	-	-
Total Investments	\$ 17,961,400	\$ 17,961,400	\$ -	\$ -
Beneficial Interest in Trusts	\$ 2,620,000	\$ -	\$ -	\$ 2,620,000

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 5. Fair Value Disclosures (Continued)

	2011			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Cash	\$ 67,100	\$ 67,100	\$ -	\$ -
Equity Securities:				
U.S. Large Cap Growth-Mutual Funds	1,426,600	1,426,600	-	-
U.S. Large Cap Value-Mutual Funds	2,138,500	2,138,500	-	-
U.S. Large Cap Growth-Managed Account	1,205,600	1,205,600	-	-
U.S. Small & Mid Cap-Mutual Funds	1,803,300	1,803,300	-	-
International Mutual Funds	4,021,400	4,021,400	-	-
Total Equity Securities	10,595,400	10,595,400	-	-
Fixed Income Securities:				
U.S. Corporate Bond Mutual Funds	5,295,500	5,295,500	-	-
International Bond Mutual Funds	222,700	222,700	-	-
Total Fixed Income Securities	5,518,200	5,518,200	-	-
Total Investments	\$ 16,180,700	\$ 16,180,700	\$ -	\$ -
Beneficial Interest in Trusts	\$ 2,397,400	\$ -	\$ -	\$ 2,397,400

Easter Seals maintains a portion of its investment portfolio in a separate account as a reserve for its charitable gift annuities. This reserve totaled \$1,759,900 and \$1,402,000 at December 31, 2012 and 2011, respectively.

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	2012	2011
	Beneficial Interest in Trusts	Beneficial Interest in Trusts
Balance, beginning of year	\$ 2,397,400	\$ 1,129,100
New trust contributions	27,500	1,340,400
Annual distributions from charitable lead trust	(93,400)	(78,500)
Change in value of trusts	288,500	6,400
Balance, end of year	\$ 2,620,000	\$ 2,397,400

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 6. Investment Income

Investment returns (losses) recorded in the statement of activities and changes in net assets are as follows:

	2012	2011
Interest and dividends	\$ 553,800	\$ 323,300
Perpetual trust interest and dividends	33,400	28,100
Realized gain	429,500	201,800
Unrealized gain (loss)	1,219,900	(1,076,400)
	<u>\$ 2,236,600</u>	<u>\$ (523,200)</u>

Investment advisory fees paid by Easter Seals were \$20,600 and \$20,000 for 2012 and 2011, respectively.

Note 7. Debt

Easter Seals has an available \$6,000,000 bank line of credit. Borrowings outstanding under the line are due on demand and are collateralized by certain unrestricted investments. Easter Seals had \$2,182,300 and \$2,382,400 outstanding under this line of credit as of December 31, 2012 and 2011, respectively. The interest rate options are the bank's prime rate less 1.25% or LIBOR plus 1.5%. Easter Seals had selected the LIBOR rate option. The weighted average interest rate on the line of credit was 1.27% and 1.99% for 2012 and 2011, respectively.

Easter Seals has a \$4,600,000 term loan facility from the same commercial bank, which was converted to a five year fixed-rate loan at 2.87% on January 15, 2012. The loan requires minimum quarterly principal payments which total \$575,000 per year. The loan is collateralized by certain unrestricted investments held by Easter Seals. The balance of the term loan was \$4,025,000 and \$3,729,000 at December 31, 2012 and 2011, respectively.

Under the terms of the above bank debt, Easter Seals is subject to various covenants including the requirement to maintain a ratio of eligible investments compared to debt.

The future maturities of this note as of December 31, 2012 are as follows:

Year ending December 31,	
2013	\$ 575,000
2014	575,000
2015	575,000
2016	575,000
Thereafter	1,725,000
	<u>\$ 4,025,000</u>

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 8. Affiliates

Easter Seals requires each affiliate to submit its annual audited financial statements, its annual return of organization exempt from income tax (Form 990, filed with the Internal Revenue Service), and an Easter Seals data template, by certain dates during each year. Easter Seals headquarters reviews the audited statements and agrees the information to the template to ensure accuracy. The information is then aggregated and included in Easter Seals' non-audited annual report. This information, summarized for the most recent annual reporting periods (2011), is as follows:

	2011	2010
Total assets	\$ 1,138,150,600	\$ 1,032,451,700
Total liabilities	415,015,600	361,578,100
Total net assets	723,135,000	670,873,600
Total revenues	1,376,747,800	1,270,438,700
Total expenses and other changes in net assets	1,324,486,400	1,226,664,300

The nature of Easter Seals' relationship with its affiliates, as described in the membership agreements, does not require consolidation under accounting principles generally accepted in the United States of America.

As participants in the Easter Seals organization, affiliates paid membership fees of \$3,223,700 and \$3,304,700 for the 2012 and 2011, respectively. Accounts receivable balances from affiliates, after allowances for uncollectible accounts, at December 31, 2012 and 2011, were \$307,100 and \$367,800, respectively. These amounts are classified in current assets based on expected payments.

The aggregate amount of program awards and grants for which Easter Seals is obligated to its affiliates as of December 31, 2012 and 2011 are \$2,346,500 and \$576,500, respectively. The present value as of December 31, 2012 and 2011 is \$2,217,400 and \$576,500. The discount of \$129,100 will be recognized as interest expense in fiscal years 2013 through 2015. As of December 31, 2012, the program awards and grants are payable as follows:

Year ending December 31,	
2013	\$ 1,465,500
2014	433,300
2015	318,600
	<u>\$ 2,217,400</u>

Note 9. Allocation of Joint Information Costs

For the years ended December 31, 2012 and 2011, Easter Seals incurred joint program services costs of \$28,751,400 and \$29,621,800, respectively, for informational materials that included fundraising appeals. For 2012 and 2011, Easter Seals allocated \$13,826,100 and \$14,610,000, respectively, to public health education and \$14,925,300 and \$15,011,800, respectively, to fundraising.

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 10. Pension Plan

Easter Seals has a defined benefit pension plan covering substantially all of its employees. Benefits are based on years of service and the employee's average compensation. Easter Seals' funding policy has been to contribute annually an amount equal to at least the minimum amount required under the applicable employment retirement regulations. The plan was last amended effective April 30, 2012 freezing eligibility, compensation, and benefit accruals. The effect of this amendment has been recognized in this accounting valuation as a curtailment of \$108,400 within the net periodic benefit cost.

The following tables set forth the accumulated benefit obligation, projected benefit obligation, and the change in the plan assets of the defined pension plan with measurement dates of December 31, 2012 and 2011, respectively. The tables also reflect the funded status of the plans, as well as recognized and unrecognized amounts in the statement of financial position.

	2012	2011
Accumulated benefit obligation	\$ 27,198,800	\$ 22,031,100
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 23,836,000	\$ 20,375,000
Service cost	186,600	501,100
Interest cost	1,282,300	1,282,900
Actuarial losses	3,095,900	2,423,900
Curtailments, settlements, and special termination benefits	(259,100)	-
Plan amendments	-	122,000
Benefits paid	(942,900)	(868,900)
Projected benefit obligation at end of year	27,198,800	23,836,000
Change in plan assets:		
Fair value of plan assets at beginning of year	16,359,200	16,464,100
Actual return (loss) on plan assets	1,684,400	(715,000)
Employer contributions	1,503,000	1,479,000
Benefits paid	(942,900)	(868,900)
Fair value of plan assets at end of year	18,603,700	16,359,200
Reconciliation of funded status:		
Funded status	(8,595,100)	(7,476,800)
Net amount recognized	\$ (8,595,100)	\$ (7,476,800)
Amounts recognized in statement of financial position consist of:		
Noncurrent liabilities	\$ (8,595,100)	\$ (7,476,800)

Included in unrestricted net assets at December 31, 2012 and 2011, are the following amounts that have not been recognized in the net periodic pension cost:

	2012	2011
Unrecognized prior service credit	\$ -	\$ (114,400)
Unrecognized actuarial loss	11,849,900	10,167,300
	\$ 11,849,900	\$ 10,052,900

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 10. Pension Plan (Continued)

The estimated net actuarial loss for this defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is \$922,200.

Changes in plan assets and benefit obligations recognized in unrestricted net assets during the reporting period include:

	2012	2011
Current year actuarial loss	\$ 2,491,300	\$ 4,480,000
Amortization of prior service credit	6,000	(500)
Current year prior service cost	108,400	122,000
Amortization of net loss	(808,700)	(487,300)
	<u>\$ 1,797,000</u>	<u>\$ 4,114,200</u>
Components of net periodic benefit cost:		
Service cost	\$ 186,600	\$ 501,100
Interest cost	1,282,300	1,282,900
Expected return on plan assets	(1,338,900)	(1,341,100)
Amortization of prior service credit	(6,000)	500
Amortization of actuarial loss	808,700	487,300
Recognition due to settlement or curtailment	(108,400)	-
Net periodic benefit cost	<u>\$ 824,300</u>	<u>\$ 930,700</u>

The weighted-average assumptions used in determining the actuarial present value of the projected benefit obligation were as follows:

Weighted-average discount rate	4.60%	5.40%
Weighted-average rate of compensation increase	2.50%	2.50%

The weighted-average assumptions used in determining the net periodic benefit cost were as follows:

Weighted-average discount rate	5.40%	6.10%
Weighted-average rate of compensation increase	2.50%	2.50%
Weighted-average expected long-term rate of return on plan assets	8.00%	8.00%

Easter Seals determines the long-term expected rate of return on plan assets by examining historical capital market returns, correlations between asset classes, and the plan's normal asset allocation. Current and near-term market factors, such as inflation and interest rates, are then evaluated to arrive at the expected return on plan assets. Peer group or benchmarking data are also reviewed to ensure reasonable and appropriate assumptions.

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 10. Pension Plan (Continued)

Plan Assets

Easter Seals participates in a pooled pension plan sponsored by Easter Seals and its various affiliates throughout the country. All plan assets are held in a Master Trust, which holds the assets of all retirement plans sponsored by the various organizations. Easter Seals' percentage interest in the assets of the Master Trust was approximately 55% and 53% as of December 31, 2012 and 2011, respectively.

The valuation methodologies used for the plan assets are described in Note 5.

Fair value measurements at December 31, 2012 and 2011 were as follows:

	2012			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Cash	\$ 2,409,000	\$ 2,409,000	\$ -	\$ -
Equity Securities:				
U.S. Large Cap-Mutual Funds	1,863,900	1,863,900	-	-
U.S. Large Cap Growth-Mutual Funds	1,542,400	1,542,400	-	-
U.S. Small Cap-Mutual Funds	1,790,900	1,790,900	-	-
International Mutual Funds	7,012,300	7,012,300	-	-
Total Equity Securities	12,209,500	12,209,500	-	-
Fixed Income Securities:				
U.S. Corporate Bond Mutual Funds	19,077,300	19,077,300	-	-
International Bond Mutual Funds	400,600	400,600	-	-
Total Fixed Income Securities	19,477,900	19,477,900	-	-
Total	\$ 34,096,400	\$ 34,096,400	\$ -	\$ -
Easter Seals' portion of the above investments	\$ 18,603,700	\$ -	\$ 18,603,700	\$ -

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 10. Pension Plan (Continued)

	2011			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Cash	\$ 968,600	\$ 968,600	\$ -	\$ -
Equity Securities:				
U.S. Large Cap-Mutual Funds	1,999,800	1,999,800	-	-
U.S. Large Cap Value-Mutual Funds	1,221,100	1,221,100	-	-
U.S. Large Cap Growth-Managed Account	1,397,700	1,397,700	-	-
U.S. Small Cap-Managed Account	1,374,200	1,374,200	-	-
International Mutual Funds	4,979,200	4,979,200	-	-
Total Equity Securities	10,972,000	10,972,000	-	-
Fixed Income Securities:				
U.S. Corporate Bond Mutual Funds	18,530,200	18,530,200	-	-
International Bond Mutual Funds	395,300	395,300	-	-
Total Fixed Income Securities	18,925,500	18,925,500	-	-
Total	\$ 30,866,100	\$ 30,866,100	\$ -	\$ -
Easter Seals' portion of the above investments	\$ 16,359,100	\$ -	\$ 16,359,100	\$ -

Easter Seals employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income. Equity investments are diversified across the U.S. and non-U.S. corporate stocks, as well as growth, value, and small and large capitalizations. Fixed income securities include corporate bonds of companies from diversified industries and U.S. Treasuries. Other types of investments include investments in institutional funds that follow several different strategies. Easter Seals' external investment managers may use derivatives to gain market exposure in an efficient and timely manner. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

Contributions

Easter Seals made contributions to the pension plan of \$1,503,000 and \$1,479,000 during the years ended December 31, 2012 and 2011. Easter Seals plans on contributing \$1,536,000 to the plan in 2013.

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 10. Pension Plan (Continued)

Estimated Future Benefit Payments

Estimated future benefit payments are as follows:

Year Ending December 31:

2013	\$ 1,473,900
2014	1,521,200
2015	1,611,000
2016	1,731,700
2017	1,810,800
Years 2018-2022	9,304,900

Note 11. Restricted Net Assets

Temporarily restricted net assets (including unexpended earnings from permanently restricted net assets) at December 31, 2012 and 2011 have been restricted by donors as follows:

	2012	2011
	Temporarily Restricted	Temporarily Restricted
Program restrictions		
Advocacy	\$ 230,800	\$ 242,900
Education	115,700	197,300
Services for young children	232,200	490,100
Services for people with autism	125,000	-
Services for veterans	4,187,100	1,456,300
Services for older adults	-	184,800
Time restriction	851,900	926,200
Totals	\$ 5,742,700	\$ 3,497,600

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes specified by donors or time restrictions met for the years ended December 31, 2012 and 2011 as follows:

	2012	2011
Program restrictions		
Advocacy	\$ 92,100	\$ 114,300
Geographic location	6,337,200	108,000
Education	165,300	70,000
Services for young children	370,500	443,700
Services for people with autism	225,000	126,700
Services for veterans	758,800	176,100
Services for older adults	-	239,900
Time restriction	142,000	128,000
Totals	\$ 8,090,900	\$ 1,406,700

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 12. Endowments

Easter Seals' endowments consist of two individual funds. Easter Seals does not consider its beneficial interest in perpetual trusts to be part of its endowment since it has no control over the assets included in the perpetual trusts. As required by accounting principles for non profits, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The permanently restricted endowment of \$680,200 and \$537,300 at December 31, 2012 and 2011, respectively, represent a segregated endowment fund, the corpus of which must be held in perpetuity. The income generated from the fund is unrestricted.

Funds with Deficits

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or state prudent management regulations requires Easter Seals to maintain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2012 or 2011.

Return Objectives and Risk Parameters

Easter Seals has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while ensuring that the purchasing power of the endowment assets does not decline over time. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. Easter Seals expects its endowment funds to provide an average rate of return of approximately 8% annually.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Easter Seals 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). Easter Seals 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

Easter Seals has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior three years through the year-end, preceding the year in which the distribution is planned. For an endowment fund in existence for fewer than three years, the fair market value of the endowment fund must be calculated for the period the endowment fund has been in existence. In establishing this policy, Easter Seals considered the long-term expected return on its endowment. Easter Seals expects permanent funds to provide an average rate of return of approximately 8% annually. Accordingly, over the long term, Easter Seals expects the current spending policy to grow its endowment at an average of 3% annually. This is classified as temporarily restricted until appropriated by the board at which time it is reclassified to unrestricted. This is consistent with objectives to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 12. Endowments (Continued)

Perpetual endowment funds are required to be maintained permanently either by explicit donor stipulation or by UPMIFA.

	Donor-Restricted Endowment Funds Permanently Restricted 2012	Donor-Restricted Endowment Funds Permanently Restricted 2011
Endowment Net Asset Composition by Type of Fund as of December 31		
Donor-Restricted Funds	\$ 680,200	\$ 537,300
Total Funds	680,200	537,300
Amount of endowment that is a receivable	660,200	517,300
Total Funds Received For Investment	<u>\$ 20,000</u>	<u>\$ 20,000</u>

The changes in Easter Seals' donor-restricted endowment funds were as follows for the years ended December 31, 2012 and 2011:

	2012		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 100	\$ 537,300	\$ 537,400
Investment return:			
Investment income	1,300	-	1,300
Net appreciation (unrealized and realized)	800	-	800
Total investment return	<u>2,100</u>	<u>-</u>	<u>2,100</u>
Contributions to perpetual endowment	-	142,900	142,900
Amounts appropriated for expenditure	(1,000)	-	(1,000)
Endowment net assets, end of year	<u>\$ 1,200</u>	<u>\$ 680,200</u>	<u>\$ 681,400</u>

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 12. Endowments (Continued)

	2011		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,500	\$ 524,900	\$ 526,400
Investment loss:			
Investment income	1,300	-	1,300
Net depreciation (unrealized and realized)	(1,900)	-	(1,900)
Total investment loss	(600)	-	(600)
Contributions to perpetual endowment	-	12,400	12,400
Amounts appropriated for expenditure	(800)	-	(800)
Endowment net assets, end of year	\$ 100	\$ 537,300	\$ 537,400

Note 13. Special Events

Easter Seals conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual costs to Easter Seals. The direct costs of the special events that ultimately benefit the donor rather than Easter Seals are recorded as exchange transaction income and exchange transaction expenses. All proceeds received in excess of the direct costs are recorded as special events revenue in the accompanying statement of activities. Easter Seals raised \$84,500 and \$86,000 in special event revenue with costs of \$52,000 and \$51,200 in 2012 and 2011, respectively.

Note 14. Leases

Easter Seals has an operating lease for its corporate headquarters which has been in effect since August 2008, and provides for annual base rent plus a pro rata share of real estate taxes and other operating expenses. Base rent is recognized on a straight-line basis over the life of the lease and was \$445,200 for the years ended December 31, 2012 and 2011. This lease expires in January 2021.

Easter Seals has an operating lease for office space in Washington, D.C. which provides for annual base rent plus a pro rata share of real estate taxes and other operating expenses as defined in the lease. This lease expires June 2017. Rent expense is recognized on a straight-line basis over the life of the lease and was approximately \$503,100 for the years ended December 31, 2012 and 2011.

Certain equipment is leased under capital leases expiring in various years through 2015.

Easter Seals, Inc. and Easter Seals Foundation

Notes to Consolidated Financial Statements

Note 14. Leases (Continued)

Future minimum lease payments are as follows:

Year Ending December 31:	<u>Capital Leases</u>	<u>Operating Leases</u>
2013	\$ 37,000	\$ 984,600
2014	29,800	1,004,300
2015	6,100	1,031,900
2016	-	1,059,900
2017	-	795,300
2018-2021	-	1,659,600
Total minimum lease payments	<u>72,900</u>	<u>\$ 6,535,600</u>
Amounts representing interest	<u>2,200</u>	
Present value of net minimum lease payments	<u>\$ 70,700</u>	

Note 15. Contingencies

Easter Seals is occasionally party to lawsuits and claims arising out of the conduct of its business. Easter Seals' management is of the opinion that the outcome of these matters will not have a material effect on the financial statements.