Easter Seals, Inc.

Financial Report
December 31, 2010

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McGladrey

Independent Auditor's Report

To the Board of Directors
Easter Seals, Inc.
Chicago, Illinois

We have audited the accompanying statement of financial position of Easter Seals, Inc. (an Ohio not-for-profit corporation) as of December 31, 2010, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Easter Seals, Inc. as of December 31, 2010, and the changes in its net assets, its cash flows and its functional expenses for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Chicago, Illinois
April 25, 2011

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The two firms operate as separate legal entities in an alternative practice structure.

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Easter Seals, Inc.

Statement of Financial Position
December 31, 2010

Assets	
Current Assets	
Cash and cash equivalents	$ 671,000
Investments	15,313,500
Accounts receivable from affiliates, less allowance of $260,000	679,700
Government grants receivable	3,253,900
Pledges receivable, net	263,900
Other accounts receivable, less allowance of $25,000	171,500
Prepaid expenses	279,300
Total current assets	20,632,800
Long-Term Assets	
Fixed assets, net	931,200
Investments for charitable gift annuities	1,499,400
Pledges receivable, net	202,800
Beneficial interest in lead trust	452,200
Beneficial interest in remainder trust	676,900
Total long-term assets	3,762,500
Total assets	$ 24,395,300
Liabilities and Net Assets	
Current Liabilities	
Accounts payable and accrued liabilities	$ 7,694,300
Accounts payable to affiliates	1,978,100
Capital lease obligation	44,900
Line of credit	1,028,900
Total current liabilities	10,746,200
Long-Term Liabilities	
Capital lease obligation	93,100
Accounts payable to affiliates	437,400
Charitable gift annuities	750,500
Deferred rent and other	653,800
Note payable	2,250,000
Pension liability	3,910,900
Total long-term liabilities	8,095,700
Total liabilities	18,841,900
Net Assets	
Unrestricted	3,101,800
Temporarily restricted	1,926,700
Permanently restricted	524,900
Total net assets	5,553,400
Total liabilities and net assets	$ 24,395,300

See Notes to Financial Statements.

Easter Seals, Inc.

Statement of Activities and Changes in Net Assets
Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating				
Public Support:				
Contributions	$ 50,718,600	$ 1,942,700	$ 400	$ 52,661,700
Special events	37,900	-	-	37,900
Change in value of split interest agreements	(208,000)	41,300	38,700	(128,000)
Government grants	33,323,200	-	-	33,323,200
In-kind contributions	3,440,400	-	-	3,440,400
Total public support	87,312,100	1,984,000	39,100	89,335,200
Revenues:				
Membership fees from affiliates	7,019,800	-	-	7,019,800
Sales and services to affiliates	390,200	-	-	390,200
Investment return	2,122,500	-	-	2,122,500
Miscellaneous revenue	170,600	-	-	170,600
Net assets released from restrictions	1,944,500	(1,944,500)	-	-
Total revenues	11,647,600	(1,944,500)	-	9,703,100
Total public support and revenues	98,959,700	39,500	39,100	99,038,300
Expenses:				
Program services:				
Services for affiliates:				
Program development	48,184,900	-	-	48,184,900
Professional education and training	3,692,000	-	-	3,692,000
Fundraising advisory	7,132,600	-	-	7,132,600
Management advisory	3,563,500	-	-	3,563,500
Total services for affiliates	62,573,000	-	-	62,573,000
Public health education	14,956,600	-	-	14,956,600
Advocacy for persons with disabilities	2,348,400	-	-	2,348,400
Research	674,100	-	-	674,100
Total program services	80,552,100	-	-	80,552,100
Supporting services:				
Fundraising	12,906,900	-	-	12,906,900
Management and general	3,406,900	-	-	3,406,900
Total supporting services	16,313,800	-	-	16,313,800
Total operating expenses	96,865,900	-	-	96,865,900
Public support and revenues in excess of operating expenses	2,093,800	39,500	39,100	2,172,400

Easter Seals, Inc.

Statement of Activities and Changes in Net Assets (Continued)
Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Nonoperating				
Pension liability adjustments other than net periodic benefit cost	$ (179,800)	$ -	$ -	$ (179,800)
Change in net assets	1,914,000	39,500	39,100	1,992,600
				-
Net assets, beginning of year	1,187,800	1,887,200	485,800	3,560,800
				-
Net assets, end of year	$ 3,101,800	$ 1,926,700	$ 524,900	$ 5,553,400

See Notes to Financial Statements.

Easter Seals, Inc.

Statement of Functional Expenses

Year Ended December 31, 2010

	Program Services												
	Affiliates					Headquarters							
	Program Development	Professional Education and Training	Fundraising Advisory	Management Advisory	Total Services for Affiliates	Public Health Education	Advocacy for Persons with Disabilities	Research	Total Headquarter's Programs	Total Program Services	Fundraising	Management and General	Total Expenses
Salaries and related expenses	$ 3,097,500	$ 2,155,300	$ 2,480,000	$ 2,331,700	$ 10,064,500	$ 430,300	$ 139,500	$ -	$ 569,800	$ 10,634,300	$ 161,600	$ 2,089,300	$ 12,885,200
Mail production and services	-	-	2,853,000	-	2,853,000	12,361,100	-	-	12,361,100	15,214,100	12,513,200	-	27,727,300
Grants and awards	42,929,200	5,400	-	-	42,934,600	-	-	-	-	42,934,600	-	-	42,934,600
Professional fees	966,400	290,800	859,200	451,500	2,567,900	241,400	36,600	674,100	952,100	3,520,000	168,700	588,700	4,277,400
Printing and media	99,200	123,100	103,000	46,600	371,900	1,728,600	2,107,300	-	3,835,900	4,207,800	9,800	22,500	4,240,100
Travel	195,500	92,900	79,800	191,800	560,000	23,500	11,400	-	34,900	594,900	5,500	66,800	667,200
Conferences and meetings	180,500	459,400	235,200	187,300	1,062,400	73,700	4,400	-	78,100	1,140,500	8,800	105,500	1,254,800
Occupancy	432,000	314,600	298,600	214,600	1,259,800	56,200	29,300	-	85,500	1,345,300	18,100	259,100	1,622,500
Telephone and communications	65,700	123,100	35,600	42,600	267,000	8,000	2,700	-	10,700	277,700	2,800	23,500	304,000
Office supplies	39,500	15,300	11,000	16,600	82,400	6,800	3,100	-	9,900	92,300	400	13,200	105,900
Postage and shipping	9,000	31,600	21,600	7,500	69,700	4,300	300	-	4,600	74,300	700	10,100	85,100
Repair and maintenance	19,600	29,200	15,100	12,300	76,200	5,900	1,400	-	7,300	83,500	400	39,200	123,100
Miscellaneous	76,200	18,700	99,500	40,100	234,500	3,500	6,100	-	9,600	244,100	14,400	144,700	403,200
Depreciation and amortization	74,600	32,600	41,000	20,900	169,100	13,300	6,300	-	19,600	188,700	2,500	44,300	235,500
Total expenses	$ 48,184,900	$ 3,692,000	$ 7,132,600	$ 3,563,500	$ 62,573,000	$ 14,956,600	$ 2,348,400	$ 674,100	$ 17,979,100	$ 80,552,100	$ 12,906,900	$ 3,406,900	$ 96,865,900

See Notes to Financial Statements.

Easter Seals, Inc.

Statement of Cash Flows
Year Ended December 31, 2010

Cash Flows from Operating Activities	
Change in net assets	$ 1,992,600
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	235,500
Net unrealized and realized gains on investments	(2,122,500)
Change in value of split-interest agreements	128,000
Loss on disposal of property	34,300
Change in value of pension liability	1,180,500
Changes in assets and liabilities:	
Accounts receivable from affiliates	172,900
Refundable advance	2,144,700
Government grants receivable	(860,900)
Pledges receivable, net	267,100
Other accounts receivable	(47,600)
Prepaid expenses	(31,600)
Beneficial interests in trusts and gift annuities, net	(212,700)
Accounts payable and accrued liabilities	593,300
Accounts payable to affiliates	(291,000)
Deferred rent and other	(145,800)
Payments on pension liability	(1,577,200)
Net cash provided by operating activities	1,459,600
Cash Flows from Investing Activities	
Purchases of fixed assets	(110,100)
Purchases of investments	(4,984,300)
Proceeds from maturity or sale of investments	5,201,200
Net cash provided by investing activities	106,800
Cash Flows from Financing Activities	
Proceeds from notes payable	2,250,000
Payments on notes payable	(529,400)
Net repayments on line of credit	(3,166,900)
Payments on capital lease obligations	(25,100)
Net cash used in financing activities	(1,471,400)
Net change in cash and cash equivalents	95,000
Cash and cash equivalents:	
Beginning of year	576,000
End of year	$ 671,000
Supplemental Disclosure of Cash Flow Information	
Cash paid during the year for interest	$ 88,600
Supplemental Schedule of Noncash Investing and Financing Activities	
Capital lease obligations incurred for use of equipment	$ 93,400

See Notes to Financial Statements.

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

Nature of the organization: Easter Seals, Inc. (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 over 90 years, Easter Seals has been offering help and hope to children and adults living with disabilities and to their families.

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 and 77 affiliates, 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 Easter Seals does 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.

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.

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.

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. 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.

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	5-7 years
Computer equipment and software	3 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 during 2010.

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.

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.

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

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: Grant 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.

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.

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

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: Activities to assure equal access and opportunities for people with disabilities.

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.

Research: 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.

Grants and awards: Grants and awards to affiliates for program development purposes are paid as advances, or distributions, based on expected cash collections from fundraising programs, and are recognized as expenses throughout the year.

Income taxes: Easter Seals, an Ohio nonprofit corporation, 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). At December 31, 2010, there were no unrecognized tax benefits identified or recorded as liabilities.

Easter Seals files Form 990 in the U.S. federal jurisdiction and the state of Illinois. With few exceptions, Easter Seals is no longer subject to examination by the Internal Revenue Service for years before 2007.

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.

Subsequent events: Easter Seals has evaluated subsequent events for potential recognition and/or disclosure through April 25, 2011, 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 2.43% to 8.25%) are due to be collected as follows:

Gross amounts due in:		
One year	$	263,900
One to five years		252,600
Subtotal		516,500
Less discount to present value		(49,800)
Total	$	466,700

The discount will be recognized as contribution income in fiscal years 2010 through 2013 as the discount is amortized using an effective yield over the duration of the pledge.

Note 3. Beneficial Interest in Trusts

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

	Discount Rate	Annual Distribution	Remaining Years	Current Fair Value
2006 charitable lead trust	1.79%	75,000	6	$ 414,800
2010 charitable lead trust	2.44%	4,500	9	37,400
				$ 452,200

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

	Discount Rate	Principal Amount	Remaining Years	Current Fair Value
1998 charitable remainder trust	3.41%	166,000	22	$ 79,800
1999 charitable remainder trust	3.35%	1,000,000	21	500,300
2009 charitable remainder trust	3.23%	448,400	19	96,800
				$ 676,900

Note 4. Fixed Assets

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

Leasehold improvements	$	31,800
Furniture and fixtures		547,100
Computers, equipment and software		816,100
		1,395,000
Accumulated depreciation and amortization		(663,800)
Total fixed assets		731,200
Intangible asset		200,000
Total fixed assets and intangible asset	$	931,200

Software amortization expense for the year ended December 31, 2010, was approximately $22,600. Total accumulated software amortization expense for the year ended December 31, 2010, was approximately $88,800.

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.

For the year ended December 31, 2010, 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.

Beneficial Interest in Trusts

The fair value of beneficial interest in trusts is based on the present value of future cash flows.

Note 5. Fair Value Disclosures (Continued)

The following table presents Easter Seals' fair value hierarchy for the investments as of December 31, 2010:

	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Cash	$ 61,300	$ 61,300	$ -	$ -
Equity Securities:				
U.S. Large Cap Growth-Mutual Funds	1,439,400	1,439,400	-	-
U.S. Large Cap Value-Mutual Funds	2,250,400	2,250,400	-	-
U.S. Large Cap Growth-Managed Account	1,206,200	1,206,200	-	-
U.S. Small & Mid Cap-Mutual Funds	1,849,700	1,849,700	-	-
International Mutual Funds	4,543,600	4,543,600	-	-
Total Equity Securities	11,289,300	11,289,300	-	-
Fixed Income Securities:				
U.S. Corporate Bond Mutual Funds	5,217,400	5,217,400	-	-
International Bond Mutual Funds	244,900	244,900	-	-
Total Fixed Income Securities	5,462,300	5,462,300	-	-
Total Investments	$ 16,812,900	$ 16,812,900	$ -	$ -
Beneficial Interest in Trusts	$ 1,129,100	$ -	$ -	$ 1,129,100

Easter Seals maintains a portion of its investment portfolio in a separate account as a reserve for its charitable gift annuities. This reserve totaled $1,499,400 at December 31, 2010.

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

	Beneficial Interest in Trusts
Balance, beginning of year	$ 1,094,700
New charitable remainder trust	33,600
Annual distributions from charitable lead trust	(79,100)
Increase in value of trusts	79,900
Balance, end of year	$ 1,129,100

Note 6. Investments

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

Interest, dividends, and realized losses	$	230,800
Unrealized gain		1,891,700
	$	2,122,500

Investment advisory fees paid by Easter Seals were $27,500 for the year ended December 31, 2010.

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 $1,028,900 outstanding under this line of credit as of December 31, 2010. 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 for the reporting period was 2.03%.

Easter Seals has a $4,600,000 multi-draw term loan facility from the same commercial bank, which will begin principal amortization upon conversion to a five year fixed-rate loan. As of December 31, 2010, the loan had not been converted and was incurring interest at the same rate as the line of credit noted above. The latest conversion date possible is January 15, 2012. The loan is collateralized by certain unrestricted investments held by Easter Seals. The balance of the term loan was $2,250,000 at December 31, 2010.

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 fiscal 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 (2009), is as follows:

Total assets	$	950,787,800
Total liabilities		323,688,600
Total net assets		627,099,200
Total revenues		1,125,731,700
Total expenses		1,151,047,500

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

As participants in the Easter Seals organization, affiliates paid membership fees of $7,019,800 for the year. Accounts receivable balances from affiliates, after allowances for uncollectible accounts, at December 31, 2010, were $679,700. These amounts are classified in current assets based on expected payments.

Note 9. Allocation of Joint Information Costs

For the year ended December 31, 2010, Easter Seals incurred joint program services costs of $27,727,300, for informational materials that included fundraising appeals. For the year ended December 31, 2010, Easter Seals allocated $2,853,000, $12,361,100, and $12,513,200 to fundraising advisory, public health education, and fundraising, respectively.

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 final 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 following table sets forth the accumulated benefit obligation, projected benefit obligation, and the change in the plan assets of the defined pension plan with a measurement date of December 31, 2010. The table also reflects the funded status of the plans, as well as recognized and unrecognized amounts in the statement of financial position:

Accumulated benefit obligation	$ 19,742,200
Change in projected benefit obligation:	
Projected benefit obligation at beginning of year	$ 18,582,000
Service cost	544,300
Interest cost	1,236,300
Actuarial gains	858,800
Plan amendments	-
Benefits paid	(846,400)
Projected benefit obligation at end of year	20,375,000
Change in plan assets:	
Fair value of plan assets at beginning of year	14,274,300
Actual return on plan assets	1,459,000
Employer contributions	1,577,200
Benefits paid	(846,400)
Fair value of plan assets at end of year	16,464,100
Reconciliation of funded status:	
Funded status	(3,910,900)
Net amount recognized	$ (3,910,900)
Amounts recognized in statement of financial position consist of:	
Noncurrent liabilities	$ (3,910,900)

No plan assets are expected to be returned to Easter Seals during 2010.

Note 10. Pension Plan (Continued)

Included in unrestricted net assets at December 31, 2010, are the following amounts that have not been recognized in the net periodic pension cost:

Unrecognized prior service credit	$	(235,900)
Unrecognized actuarial loss		6,174,600
	$	5,938,700

The estimated net actuarial loss and prior service credit 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 $386,600.

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

Current year actuarial loss	$	561,600
Amortization of prior service credit		11,200
Current year prior service cost		-
Amortization of net loss		(393,000)
	$	179,800

Components of net periodic benefit cost:		
Service cost	$	544,300
Interest cost		1,236,300
Expected return on plan assets		(1,161,700)
Amortization of prior service credit		(11,200)
Amortization of actuarial loss		393,000
Net periodic benefit cost	$	1,000,700

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

Weighted-average discount rate	6.10%
Weighted-average rate of compensation increase	2.50%

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

Weighted-average discount rate	6.60%
Weighted-average rate of compensation increase	2.50%
Weighted-average expected long-term rate of return on plan assets	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.

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 53% as of December 31, 2010.

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

Fair value measurements at December 31, 2010 were as follows:

	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Cash	$ 1,896,100	$ 1,896,100	$ -	$ -
Equity Securities:				
U.S. Large Cap-Mutual Funds	1,977,800	1,977,800	-	-
U.S. Large Cap Value-Mutual Funds	1,305,500	1,305,500	-	-
U.S. Large Cap Growth-Managed Account	1,387,000	1,387,000	-	-
U.S. Small Cap-Managed Account	1,664,100	1,664,100	-	-
International Mutual Funds	5,548,100	5,548,100	-	-
Total Equity Securities	11,882,500	11,882,500	-	-
Fixed Income Securities:				
U.S. Corporate Bond Mutual Funds	17,072,400	17,072,400	-	-
International Bond Mutual Funds	412,700	412,700	-	-
Total Fixed Income Securities	17,485,100	17,485,100	-	-
Total	$ 31,263,700	$ 31,263,700	$ -	$ -
Easter Seals' portion of the above investments	$ 16,464,100	$ -	$ 16,464,100	$ -

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.

Note 10. Pension Plan (Continued)

Contributions

Easter Seals made contributions to the pension plan of $1,577,200 during the year ended December 31, 2010. Easter Seals plans on contributing $1,500,000 to the plan in 2011.

Estimated Future Benefit Payments

Estimated future benefit payments are as follows:

Year Ending December 31:		
2011	$	935,700
2012		1,107,600
2013		1,181,900
2014		1,344,000
2015		1,437,000
Years 2016-2020		8,088,000

Note 11. Restricted Net Assets

Temporarily restricted net assets (including unexpended earnings from permanently restricted net assets) at December 31, 2010 have been restricted by donors as follows:

		Temporarily Restricted
Program restrictions		
Advocacy	$	237,200
Services for young children		511,100
Services for people with autism		4,200
Services for veterans		47,600
Services for older adults		395,400
Time restriction		731,200
Totals	$	1,926,700

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes specified by donors for the year ended December 31 as follows:

Program restrictions		
Advocacy	$	195,600
Education		106,000
Services for young children		1,045,400
Services for people with autism		108,500
Services for veterans		120,500
Services for older adults		230,000
Time restriction		138,500
Totals	$	1,944,500

Note 12. Endowments

Easter Seals' endowments consist of two individual funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Permanently restricted net assets of $524,900 at December 31, 2010, 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, 2010.

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 calendar year-end preceding the fiscal 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.

Note 12. Endowments (Continued)

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

Endowment Net Asset Composition by Type of Fund As of December 31	Donor-Restricted Endowment Funds Permanently Restricted 2010
Donor-Restricted Funds	$ 524,900
Total Funds	524,900
Amount of endowment that is a receivable	509,900
Total Funds Received For Investment	$ 15,000

The changes in Easter Seals' donor-restricted endowment funds were as follows for the year ended December 31, 2010:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 200	$ 485,800	$ 486,000
Investment return			
Investment income	200	-	200
Net appreciation (unrealized and realized)	1,600	-	1,600
Total investment return	1,800	-	1,800
Contributions to perpetual endowment	-	39,100	39,100
Amounts appropriated for expenditure	(500)	-	(500)
Endowment net assets, end of year	$ 1,500	$ 524,900	$ 526,400

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 $97,900 in special event revenue with costs of $60,000 in 2010.

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 approximately $445,200 for the year ended December 31, 2010. 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 year ended December 31, 2010.

Certain equipment is leased under capital leases expiring in various years through 2014.

Future minimum lease payments are as follows:

	Capital Leases	Operating Leases
Year Ending December 31:		
2011	$ 44,500	$ 931,000
2012	40,000	950,000
2013	29,400	977,000
2014	25,900	1,004,300
2015	6,100	1,031,900
2016-2020	-	3,468,700
Thereafter	-	46,100
Total minimum lease payments	145,900	$ 8,409,000
Amounts representing interest	7,900	
Present value of net minimum lease payments	$ 138,000	

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.