EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

Audited Consolidated Financial Statements
and Supplementary Information

For the years ended June 30, 2016 and 2015

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

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LUDWIG KLEWER & CO. PLLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

To the Boards of Directors
Easter Seals Blake Foundation and Subsidiary

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Easter Seals Blake Foundation and Subsidiary (nonprofit organizations), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Easter Seals Blake Foundation and Subsidiary as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements. The accompanying Schedules of Functional Expenses are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2017, on our consideration of Easter Seals Blake Foundation and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Easter Seals Blake Foundation and Subsidiary's internal control over financial reporting and compliance.

Ludwig Klewer + Co. PLLC

February 20, 2017

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

ASSETS

	2016	2015
Current assets:		
Cash	$ 1,303,011	$ 426,965
Cash accounts held for clients	22,011	25,137
Grants and accounts receivable, net	3,933,177	4,871,029
Prepaid expenses and other current assets	125,227	117,768
Total current assets	5,383,426	5,440,899
Investments - deferred compensation	837,870	880,072
Property and equipment, net	8,834,781	9,268,694
Intangible assets	455,000	455,000
Other assets	179,467	197,695
Total assets	$ 15,690,544	$ 16,242,360

LIABILITIES AND NET ASSETS

	2016	2015
Current liabilities:		
Accounts payable	$ 1,105,794	$ 887,157
Accrued expenses	2,039,746	1,972,190
Cash accounts held for clients	22,011	25,137
Line of credit	1,689,848	2,420,000
Interest rate swap agreement	132,732	30,518
Notes payable, current portion	776,798	854,567
Total current liabilities	5,766,929	6,189,569
Notes payable, non-current portion	3,487,163	3,693,776
Deferred compensation liability	837,870	880,072
Total liabilities	10,091,962	10,763,417
Unrestricted net assets:		
General operating	950,224	784,610
Expended for property and equipment	4,438,088	4,689,833
Total unrestricted net assets	5,388,312	5,474,443
Temporarily restricted	210,270	4,500
Total net assets	5,598,582	5,478,943
Total liabilities and net assets	$ 15,690,544	$ 16,242,360

See independent auditor's report and accompanying notes.

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Totals
Revenue and support:			
Grants	$ 36,837,018	$ 205,770	$ 37,042,788
In-kind contributions	944,615	-	944,615
Tuition and fees	773,554	-	773,554
Other public support	429,621	-	429,621
Other revenue	112,483	-	112,483
Special events, net	97,799	-	97,799
Gain on sale of property and equipment	41,169	-	41,169
Total revenue and support	39,236,259	205,770	39,442,029
Expenses:			
Program services	35,225,690	-	35,225,690
Management and general	3,827,275	-	3,827,275
Fund-raising	167,211	-	167,211
Total expenses	39,220,176	-	39,220,176
Other income (expenses):			
Loss on interest rate swap fair value	(102,214)	-	(102,214)
Change in net assets	(86,131)	205,770	119,639
Net assets, beginning of year	5,474,443	4,500	5,478,943
Net assets, end of year	$ 5,388,312	$ 210,270	$ 5,598,582

See independent auditor's report and accompanying notes.

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Totals
Revenue and support:			
Grants	$ 32,354,276	$ 4,500	$ 32,358,776
In-kind contributions	903,233	-	903,233
Tuition and fees	827,946	-	827,946
Other public support	155,377	-	155,377
Special events, net	112,586	-	112,586
Other revenue	108,695	-	108,695
Loss on sale of property and equipment	(23,402)	-	(23,402)
Total revenue and support	34,438,711	4,500	34,443,211
Expenses:			
Program services	31,496,658	-	31,496,658
Management and general	3,363,019	-	3,363,019
Fund-raising	151,066	-	151,066
Total expenses	35,010,743	-	35,010,743
Other income (expenses):			
Loss on interest rate swap fair value	(30,797)	-	(30,797)
Change in net assets	(602,829)	4,500	(598,329)
Net assets, beginning of year	6,077,272	-	6,077,272
Net assets, end of year	$ 5,474,443	$ 4,500	$ 5,478,943

See independent auditor's report and accompanying notes.

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ 119,639	$ (598,329)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Provision for uncollectible grants and accounts receivable	54,742	27,212
Depreciation and amortization	649,840	702,495
In-kind contributions - property and equipment	-	(17,038)
(Gain) loss on disposal of property and equipment	(41,169)	23,402
Change in investments - deferred compensation	42,202	(6,814)
Loss on interest rate swap agreement	102,214	30,797
Changes in operating assets and liabilities:		
Grants and accounts receivable	883,110	(121,331)
Prepaid expenses and other current assets	(7,459)	33,691
Other assets	18,228	(23,603)
Accounts payable	497,162	(502,169)
Accrued expenses	(210,969)	(102,452)
Deferred compensation liability	(42,202)	6,814
Total adjustments	1,945,699	51,004
Net cash provided by (used in) operating activities	2,065,338	(547,325)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	41,169	33,705
Purchases of property and equipment	(215,927)	(275,157)
Net cash used in investing activities	(174,758)	(241,452)
Cash flows from financing activities:		
Advances on line of credit	4,450,000	10,185,000
Repayments on line of credit	(5,180,152)	(9,205,000)
Principal payments on notes payable	(284,382)	(137,014)
Net cash (used in) provided by financing activities	(1,014,534)	842,986
Net change in cash	876,046	54,209
Cash, beginning of year	426,965	372,756
Cash, end of year	$ 1,303,011	$ 426,965
Supplemental cash flow information:		
Cash paid during the year for interest	$ 363,207	$ 350,784
Supplemental schedule of noncash investing and financing activities:		
In-kind contributions - property and equipment	$ -	$ 42,011

See independent auditor's report and accompanying notes.

1. Organization

Easter Seals Blake Foundation is a nonprofit, community-based organization whose purpose is to provide services for children and adults in southern Arizona. Services include adult service programs, children and family service programs, residential programs, and summer programs to serve those with neurological and neuromuscular disorders. Childcare is provided to offer support and services which promote healthy relationships within families and communities by assisting and encouraging individuals to grow, learn and achieve their goals through inclusive, developmentally appropriate education, timely assessment and intervention, and respectful, reflective partnerships. Blake Holding Corporation is a nonprofit, community based organization whose purpose is to hold title to and manage real and personal property in support of Easter Seals Blake Foundation's programs.

2. Summary of Significant Accounting Policies

Financial Statement Presentation

The consolidated financial statements include the accounts of Easter Seals Blake Foundation and its commonly managed subsidiary, Blake Holding Corporation (collectively referred to as the Organization). The organizations do not share a common board of directors. All intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets in accordance with accounting principles generally accepted in the United States applicable to nonprofit organizations.

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. A portion of the unrestricted net assets have been designated by the board of directors as expended for property and equipment to reflect the total carrying value after accumulated depreciation of all property and equipment, net of directly related liabilities. Remaining unrestricted net assets are available for general operations of the Organization.
- Temporarily restricted net assets – Net assets that are subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. There was $210,270 and $4,500 in temporarily restricted assets at June 30, 2016 and 2015, respectively.
- Permanently restricted net assets – Net assets that are subject to donor-imposed stipulations that they be maintained permanently by the Organization. There are no permanently restricted net assets at June 30, 2016 and 2015.

Public Support and Revenue

Grants and other contributions of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

2. Summary of Significant Accounting Policies, Continued

Donated Services, Materials and Facilities

Donated materials and facilities are valued at their fair market value. Donated services are recognized in the consolidated financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and are provided by individuals possessing those skills;
- The services would typically need to be purchased if not donated.

The Organization utilizes the services of outside volunteers in support of program operations. Volunteer services that do not meet the criteria for recognition under accounting principles generally accepted in the United States of America are not recognized in the accompanying consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs have been summarized on a functional basis in the consolidated statements of activities. Expenses that can be identified with a specific program are allocated directly according to their natural classification. Other expenses that are common to several functions are allocated by other reasonable methods.

Income Taxes

Easter Seals Blake Foundation and Blake Holding Corporation are nonprofit organizations under Internal Revenue Code (IRC) Section 501(c)(3), and as such are exempt from both Federal and Arizona income taxes. Therefore, no provision has been made for income taxes in the accompanying consolidated financial statements. There were no income taxes paid during the years ended June 30, 2016 and 2015.

Easter Seals Blake Foundation and Blake Holding Corporation are also public charities under the IRC Sections 509(a)(1) and 170(b)(1)(A)(vi). This classification allows for donations to both organizations to be deductible as charitable contributions on income tax returns.

The Organization's policy is to disclose or recognize income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax positions. As of June 30, 2016, there were no uncertain tax positions that are potentially material.

Cash

The Organization considers all highly-liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. There are no cash equivalents at June 30, 2016 and 2015. The Federal Deposit Insurance Corporation (FDIC) insures cash accounts at banks up to $250,000 per institution. At June 30, 2016 and 2015, the Organization has $1,280,228 and $202,660, respectively, on deposit in excess of the FDIC limit. It is the opinion of management that the solvency of the referenced financial institutions is not of concern at this time.

2. Summary of Significant Accounting Policies, Continued

Grants and Accounts Receivable

The Organization uses the allowance method to account for uncollectible grants and accounts receivable. At June 30, 2016 and 2015, the balance of grants and accounts receivable included $494,812 and $598,990, respectively, of amounts over ninety days past due. Management recognizes the need for an allowance. Currently, management has estimated $43,627 and $60,536 in the allowance for doubtful accounts based on actual losses recognized during the years ended June 30, 2016 and 2015, respectively. Management's policy is to revise the allowance as necessary based on historical trends.

Property and Equipment

Purchased property and equipment is recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

The cost of repairs and maintenance is charged to expense in the year incurred. Expenditures that increase the useful lives of the assets are capitalized and depreciated. The Organization's policy is to capitalize expenditures for property and equipment that exceed $5,000. Property and equipment is depreciated using the straight-line method over the following estimated useful lives of the assets:

Buildings	40 years
Building improvements	10 years
Leasehold improvements	10 years
Furniture, fixtures and equipment	2 - 15 years
Vehicles	3 - 5 years

Goodwill

Goodwill in the amount of $455,000 at June 30, 2016 and 2015 relates to the acquisition of Supported Living Systems, Inc (SLS). Subsequent to the acquisition, the activities of SLS became a program of Easter Seals Blake Foundation.

Management periodically reviews the carrying value of goodwill to determine whether impairment may exist. The Organization considers relevant cash flow and profitability information, including estimated future operating results, trends, and other available information, in assessing whether the carrying value of goodwill can be recovered. If the Organization determines that the carrying value of goodwill is impaired, it reduces the value by a charge to operations in the amount of the impairment. The Organization has determined that the value of goodwill at June 30, 2016 and 2015 has not been impaired.

Other Assets

Other assets consist of security deposits paid for leased properties and the cash surrender value of a key man life insurance policy owned by the Organization.

2. Summary of Significant Accounting Policies, Continued

Reclassifications

Certain items from 2015 have been reclassified to conform to the 2016 financial statement presentation.

3. Grants and Accounts Receivable

Grants and accounts receivable consist of the following at June 30,:

	2016	2015
Arizona Department of Economic Security	$ 1,043,292	$ 1,026,404
United Way of Greater Tucson	495,631	225,936
Cenpatico	478,456	473,769
Other grants and accounts receivable	593,705	592,463
First Things First	338,127	345,824
Southwest Human Development	268,451	311,932
Casa De Los Niños	207,473	309,590
Optum	207,091	63,554
Parent Aide Services	147,037	258,887
NICP	59,468	72,864
Marana	52,027	163,669
Arizona Department of Transportation	32,549	38,882
Providence of Arizona	30,664	150,687
Parent Aide Transportation	14,268	25,023
Pantano	8,313	566,934
Doris Duke Foundation	252	77,338
CODAC	-	95,976
Evercare by United Health Care	-	8,698
La Frontera	-	123,135
Total grants and accounts receivable	3,976,804	4,931,565
Less: allowance for doubtful accounts	(43,627)	(60,536)
Grants and accounts receivable, net	$ 3,933,177	$ 4,871,029

4. Investments – Deferred Compensation

Investments held for the deferred compensation liability (see Note 12) consist of mutual funds valued at fair market value. The balance of investments – deferred compensation is $837,870 and $880,072 at June 30, 2016 and 2015, respectively. The net investment (loss) income for the years ended June 30, 2016 and 2015 is ($17,437) and $25,959, respectively, and has been recorded in the consolidated statement of activities as an offset to the related change in compensation expense.

5. Fair Value Measurements

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

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access

Level 2: Inputs to the valuation methodology include:

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

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

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

- *Mutual funds:* Valued at the net asset value of shared held in the deferred compensation plan account at year end.
- *Interest rate swap agreement:* Valued based on the observed LIBOR and other rates.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

5. Fair Value Measurements, Continued

Fair values of financial instruments measured on a recurring basis at June 30, 2016 are:

	Investments - Deferred Compensation			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Mid-cap blend	$ 206,107	$ -	$ -	$ 206,107
Intermediate government	172,801	-	-	172,801
Large growth	112,470	-	-	112,470
Foreign small/mid value	98,843	-	-	98,843
Allocation	73,534	-	-	73,534
Small blend	50,567	-	-	50,567
Large blend	40,600	-	-	40,600
Mid-cap growth	20,578	-	-	20,578
Small growth	20,106	-	-	20,106
Foreign large value	17,977	-	-	17,977
Large-cap	15,301	-	-	15,301
Large value	6,000	-	-	6,000
Real estate	2,899	-	-	2,899
High-yield	87	-	-	87
Total investments at fair value	$ 837,870	$ -	$ -	$ 837,870

	Financial Liabilities			
	Level 1	Level 2	Level 3	Total
Interest rate swap agreement	$ -	$ (132,732)	$ -	$ (132,732)

Fair values of financial instruments measured on a recurring basis at June 30, 2015 are:

	Investments - Deferred Compensation			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Mid-cap blend	$ 226,204	$ -	$ -	$ 226,204
Intermediate government	175,954	-	-	175,954
Large growth	127,129	-	-	127,129
Foreign small/mid value	107,483	-	-	107,483
Allocation	65,282	-	-	65,282
Small blend	60,166	-	-	60,166
Large blend	57,812	-	-	57,812
Mid-cap growth	20,638	-	-	20,638
Foreign large value	14,359	-	-	14,359
Large-cap	14,102	-	-	14,102
Small growth	10,610	-	-	10,610
High-yield	171	-	-	171
Large value	162	-	-	162
Total investments at fair value	$ 880,072	$ -	$ -	$ 880,072

5. Fair Value Measurements, Continued

	Financial Liabilities			
	Level 1	Level 2	Level 3	Total
Interest rate swap agreement	$ -	$ (30,518)	$ -	$ (30,518)

6. Property and Equipment

Property and equipment consists of the following at June 30,:

	2016	2015
Land	$ 1,351,824	$ 1,351,824
Buildings	8,426,609	8,426,609
Building improvements	1,247,226	1,220,762
Leasehold improvements	598,412	559,135
Furniture, fixtures and equipment	659,917	541,071
Vehicles	1,667,578	1,636,237
Total property and equipment	13,951,566	13,735,638
Less accumulated depreciation	(5,116,785)	(4,466,944)
Property and equipment, net	$ 8,834,781	$ 9,268,694

7. Line of Credit

The Organization has a revolving line of credit with a bank. As of June 30, 2016 and 2015, the maximum amount available to borrow was $3,000,000. On October 15, 2016, agreement was amended to include a maximum borrowing amount of $2,500,000, a maturity date of February 15, 2017 and compliance with certain financial covenants. The outstanding balance at June 30, 2016 and 2015 was $1,689,848 and $2,420,000, respectively. The Organization was in compliance with the financial covenants at June 30, 2016. As of February 20, 2017, the line of credit is temporarily extended with renewal pending review of these audited consolidated financial statements.

The interest rate is based on LIBOR plus 2.75% with a floor of 4% for the years ended June 30, 2016 and 2015 (LIBOR at June 30, 2016 and 2015 was 0.4676% and 0.7703%, respectively) and is secured by property liens, accounts receivable, and grants receivable. On October 15, 2016, the interest rate was modified to LIBOR plus 3.50% with a floor of 5%. The outstanding balance on the line is limited to 80% of the balances of "eligible accounts and grants receivable" (primarily defined as balances less than 60 days past due).

8. Notes Payable

	2016	2015
Note payable to a bank, due in monthly installments of $6,653, including interest at 6.875% through October 2015, with final balloon payment of $554,071 due November 2015, collateralized by a building and land.	$ 540,101	$ 567,423
Note payable to a bank, due in monthly installments of $4,367, including interest at 6.8% through October 2017, with final balloon payment of $382,181 due October 2017, collateralized by a building and land. The loan was paid in full during October 2016. See Note 17.	408,728	431,994

8. Notes Payable, Continued

	2016	2015
Note payable to the USDA, due in monthly installments of $4,538, including interest at 5.00%, with all principal and interest due February 2020, collateralized by present and future income, accounts receivable, and general intangibles.	207,866	250,758
Note payable to a bank, due in monthly installments of $2,245, including interest at 6.58% through February 1, 2021, with final balloon payment of $198,446 due February 1, 2021, collateralized by a building and land. On March 11, 2016, the maturity date of this note was changed to December 1, 2017. The loan was paid in full during October 2016. See Note 17.	250,254	258,493
Note payable to a bank, due in monthly installments of $8,959, including interest at 4.8%, with all principal and interest due May 28, 2025, collateralized by buildings and land. On March 11, 2016, the maturity date of this note was changed to December 1, 2017. The loan was paid in full during October 2016. See Note 17.	780,857	842,958
Note payable to a capital company, due in monthly installments of $6,046, including interest at 9.8% through October 2016, collateralized by software.	23,698	90,331
Note payable to a bank, due in monthly installments of $13,050, variable interest rate at LIBOR plus 2.75%, with all principal and interest due June 26, 2022, collateralized by a building and land.	2,052,457	2,106,386
Total notes payable	4,263,961	4,548,343
Current portion	(776,798)	(854,567)
Non-current portion	$ 3,487,163	$ 3,693,776

Principal maturities of notes payable are:

Year ended June 30,:	
2017	$ 776,798
2018	1,435,829
2019	112,910
2020	118,110
2021	82,311
Thereafter	1,738,003
	$ 4,263,961

In accordance with two of the bank notes payable, the Organization is required to maintain a debt service coverage ratio of at least 1.25 to 1 and a debt to net worth ratio of not more than 1.75 to 1 as measured at each fiscal year-end. At June 30, 2016, the Organization was not in compliance with the debt service coverage ratio. However, the Organization received a waiver from the bank as the properties associated with these two notes were sold during October 2016, and the related balances were repaid in full.

9. Grant Revenue

Grant revenue consists of the following for the years ended June 30,:

	2016	2015
Arizona Department of Economic Security	$ 12,038,307	$ 11,772,715
Cenpatico	10,384,550	2,630,930
Community contracts	4,188,113	4,821,502
United Way of Greater Tucson	2,854,701	2,193,260
First Things First	2,035,271	2,067,119
Child Parent Centers, Inc.	2,167,387	1,849,033
DES - Arizona Children, Youth and Familes	1,509,056	1,491,095
Casa De Los Niños	1,223,882	2,253,081
Community Partnership of Southern Arizona	639,066	1,949,808
Sunnyside School District	2,455	450,873
Evercare by United Healthcare	-	879,360
	$ 37,042,788	$ 32,358,776

10. Grant Revenue – Arizona Department of Economic Security

The Organization has been classified as a vendor, rather than a subrecipient, under some of its contracts with the Arizona Department of Economic Security (DES). The classification of vendor exempts the Organization from the requirements under the U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* for revenues earned under those DES contracts.

However, DES requires the following reconciliation of DES grant revenue for the years ending June 30,:

DES Contract Number	2016	2015
#E2709013/06032	$ 9,550,827	$ 9,031,629
#ADES14-066785 through ADES14-084629	923,915	-
#ADCS14-074894	894,646	-
#ADES12-036700 through ADES12-036708	660,510	-
Other contracts	639,737	1,198,446
#ADCS15-083594	549,450	-
#ADHS 15-091338/00004869, ADHS14-074962	328,278	-
#E1801002	-	1,139,049
#E4325030	-	1,081,182
#DES070036-01	-	699,442
#DES060009-006	-	114,062
	$ 13,547,363	$ 13,263,810

11. Special Events

Special event activities consist of the following for the years ended June 30,:

	2016		
	Revenue	Expenses	Net Revenue
Celebrity chefs	$ 56,174	$ 19,762	$ 36,412
Golf tournament	30,683	3,411	27,272
Walk With Me and other events	42,859	8,744	34,115
Special events, net	$ 129,716	$ 31,917	$ 97,799

	2015		
	Revenue	Expenses	Net Revenue
Celebrity chefs	$ 58,236	$ 11,669	$ 46,567
Golf tournament	36,091	7,029	29,062
Walk With Me and other events	53,475	16,518	36,957
Special events, net	$ 147,802	$ 35,216	$ 112,586

12. Retirement Plan

403(b) Plan

The Organization sponsors a salary deferral plan under Section 403(b) of the IRC. The plan allows eligible employees to defer a portion of their compensation, on a tax-deferred basis, until the employee withdraws the funds. At the Board of Directors' discretion, the Organization may match employee contributions at the rate of $0.50 per $1.00 up to a maximum of 6% of salary deferred. Total expense under this plan for the years ended June 30, 2016 and 2015 was $236,997 and $230,411, respectively, and is included with employee benefits in the consolidated schedule of functional expenses.

457(b) Deferred Compensation Plan

The Organization has a 457(b) eligible deferred compensation plan (457(b) Plan) that allows eligible employees to defer pretax annual compensation up to certain limitations imposed by the IRS. The 457(b) Plan covers employees of the Organization whose annual salary is in excess of limits imposed by the IRS. The organization reports assets and liabilities of equal amounts attributable to the amount deferred and the related investment earnings. The Organization's invested deferred compensation assets consist of mutual funds which are classified as level 1 securities in accordance with accounting principles generally accepted in the United States of America. The balance in the deferred compensation plan as of June 30, 2016 and 2015 is $837,870 and $880,072 respectively.

13. Operating Leases

The Organization leases offices, facilities, equipment and vehicles for their programs and administrative offices under non-cancelable, long-term operating leases with various expirations through April 2021. Two of the leases require the Organization to pay for their share of property taxes and common area charges. During the years ended June 30, 2016 and 2015, total rent expense was $1,479,054 and $1,271,383, respectively.

13. Operating Leases, Continued

Future minimum lease payments under these leases are:

Year ended December 31,:	
2017	$ 1,396,213
2018	858,700
2019	568,756
2020	366,241
2021	147,886
Thereafter	385,944
	$ 3,723,740

14. Contingent Liabilities

The Organization is subject to audit by their grantor agencies. Contingent liabilities to grantors, if any, have not been determined at June 30, 2016 and 2015.

15. Concentrations

During the years ended June 30, 2016 and 2015, the Organization received approximately 31% and 34%, respectively, of its total support and revenue from the Arizona Department of Economic Security.

16. Derivative Transactions

The Organization makes limited use of derivative instruments for the purpose of managing interest rate risks. During the years ended June 30, 2016 and 2015, the Organization had an interest rate swap agreement to reduce the impact of changes in the interest rate on a floating rate real estate note payable.

As of June 30, 2016 and 2015, the Organization has recognized a derivative liability in the amount of $132,732 and $30,518, respectively, on the consolidated statements of financial position. The derivative is designated as and met all of the criteria for a cash flow hedge. Changes in the fair value of the derivatives are recorded in unrestricted net assets.

During the year ended June 30, 2012, the Organization entered into a second interest rate swap agreement with a bank. The outstanding balance of the related note payable at June 30, 2016 and 2015 was $2,052,457 and $2,106,386, respectively. This agreement effectively changes the Organization's maximum interest rate exposure on this floating rate note, due June 2022, to a fixed rate of 4.85%.

17. Subsequent Events

During October 2016, 17 properties were sold to an investor under a sale-leaseback agreement in which separate lease agreements were executed for each property. The total selling price was $3,996,000, and the Organization recognized a combined net gain on the sale of approximately $440,000. In accordance with accounting principles generally accepted in the United States of America, the gain will be deferred and recognized ratably over the lives of the respective property leases.

The Organization was unaware of any additional subsequent events as of February 20, 2017, the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
For the year ended June 30, 2016

	Program Services	Management and General	Fund-raising	Total
Salaries and wages	$ 22,387,439	$ 2,078,982	$ 40,396	$ 24,506,817
Employee benefits	2,405,649	192,820	6,410	2,604,879
Payroll taxes	2,127,838	165,200	2,966	2,296,004
Total payroll and related	26,920,926	2,437,002	49,772	29,407,700
Occupancy costs	1,860,908	444,921	-	2,305,829
Professional fees	796,269	468,525	232	1,265,026
Supplies	1,164,942	31,118	120	1,196,180
Autombile	1,087,257	5,272	-	1,092,529
Information technology	595,315	163,311	-	758,626
Depreciation and amortization	617,348	32,492	-	649,840
Provider incentives	619,361	-	-	619,361
Staff recruitment and retention	429,725	31,013	1,398	462,136
Telecommunications	367,613	18,773	-	386,386
Other operating	214,119	167,484	-	381,603
Interest	359,575	3,632	-	363,207
Travel	138,166	14,261	12,126	164,553
Sponsorship facility and meals	-	-	99,778	99,778
Equipment	37,706	4,604	3,785	46,095
Miscellaneous	16,460	4,867	-	21,327
Total expenses	$ 35,225,690	$ 3,827,275	$ 167,211	$ 39,220,176

Supplementary Information.

See independent auditor's report.

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
For the year ended June 30, 2015

	Program Services	Management and General	Fund-raising	Total
Salaries and wages	$ 19,412,445	$ 1,954,667	$ 40,225	$ 21,407,337
Employee benefits	2,286,637	193,290	9,103	2,489,030
Payroll taxes	1,706,620	159,188	6,237	1,872,045
Total payroll and related	23,405,702	2,307,145	55,565	25,768,412
Occupancy costs	1,828,387	459,595	-	2,287,982
Professional fees	1,181,518	307,821	-	1,489,339
Supplies	1,142,665	34,676	-	1,177,341
Autombile	1,166,064	-	-	1,166,064
Depreciation and amortization	667,371	35,124	-	702,495
Staff recruitment and retention	515,641	38,587	8,101	562,329
Information technology	386,285	108,633	135	495,053
Provider incentives	346,514	-	-	346,514
Telecommunications	324,738	30,479	-	355,217
Interest	347,277	3,507	-	350,784
Travel	122,034	15,963	7,258	145,255
Sponsorship facility and meals	-	-	70,601	70,601
Equipment	51,710	9,467	9,406	70,583
Miscellaneous	10,752	12,022	-	22,774
Total expenses	$ 31,496,658	$ 3,363,019	$ 151,066	$ 35,010,743

Supplementary Information.

See independent auditor's report.