EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

Audited Consolidated Financial Statements

For the year ended June 30, 2019

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

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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 statement of financial position as of June 30, 2019, the related consolidated statements of activities, functional expenses and cash flows for the year 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Ludwig Klewer & Rudner PLLC

February 26, 2020

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EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS

Current assets:	
Cash	$ 3,508,288
Cash accounts held for clients	35,704
Grants and contracts receivable, net	4,670,080
Prepaid expenses and other current assets	222,850
Total current assets	8,436,922
Investments - deferred compensation	652,951
Property and equipment, net	4,807,498
Intangible assets	455,000
Other assets	183,338
Total assets	$ 14,535,709

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	$ 465,255
Accrued payroll and related expenses	1,383,835
Accrued other expenses	848,344
Cash accounts held for clients	34,050
Line of credit	996,859
Deferred lease liability, current portion	36,346
Deferred gain on sale of property, current portion	49,286
Capital leases payable, current portion	128,871
Notes payable, current portion	87,410
Total current liabilities	4,030,256
Deferred lease liability, non-current portion	75,755
Deferred gain on sale of property, non-current portion	220,545
Capital leases payable, non-current portion	228,000
Notes payable, non-current portion	1,872,681
Deferred compensation liability	652,951
Total liabilities	7,080,188
Net assets:	
Without donor restrictions:	
General operating	5,194,374
Expended for property and equipment	2,220,705
Total net assets without donor restrictions	7,415,079
With donor restrictions, time and purpose	40,442
Total net assets	7,455,521
Total liabilities and net assets	$ 14,535,709

See independent auditor's report and accompanying notes.

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Grants and contracts	$ 34,609,284	$ -	$ 34,609,284
Tuition and fees	1,331,652	40,442	1,372,094
Other public support	582,429	-	582,429
Special events, net	27,280	-	27,280
Other revenue	97,239	-	97,239
Gain on sale of property and equipment	129,261	-	129,261
In-kind contributions	1,178	-	1,178
Total revenue and support	36,778,323	40,442	36,818,765
Expenses:			
Program services:			
Child and family services	8,494,670	-	8,494,670
Behavioral health	9,674,648	-	9,674,648
Employment and community living	10,965,302	-	10,965,302
Total program services	29,134,620	-	29,134,620
Management and general	4,845,988	-	4,845,988
Fund-raising	267,193	-	267,193
Total expenses	34,247,801	-	34,247,801
Change in net assets	2,530,522	40,442	2,570,964
Net assets, beginning of year	4,884,557	-	4,884,557
Net assets, end of year	$ 7,415,079	$ 40,442	$ 7,455,521

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2019

	Child and Family Services	Behavioral Health	Employment and Community Living	Total Program Services	Management and General	Fund-raising	Total
Salaries and wages	$ 5,208,836	$ 6,188,294	$ 7,640,222	$ 19,037,352	$ 2,431,113	$ 75,463	$ 21,543,928
Employee benefits	581,615	634,060	710,866	1,926,541	283,773	7,031	2,217,345
Payroll taxes	458,451	549,035	706,783	1,714,269	182,792	6,131	1,903,192
Total payroll and related	6,248,902	7,371,389	9,057,871	22,678,162	2,897,678	88,625	25,664,465
Occupancy costs	513,205	941,732	781,838	2,236,775	558,541	-	2,795,316
Automobile	191,054	303,045	578,571	1,072,670	36,259	-	1,108,929
Professional fees	274,626	346,125	9,335	630,086	211,386	50,000	891,472
Provider incentives	715,262	-	-	715,262	-	-	715,262
Supplies	229,971	91,643	336,276	657,890	11,690	1,173	670,753
Depreciation and amortization	44,557	8,823	6,154	59,534	531,720	-	591,254
Other operating	29,273	145,275	37,121	211,669	223,243	20,361	455,273
Information technology	1,155	246,354	2,420	249,929	33,026	8,844	291,799
Telecommunications	58,657	96,158	73,672	228,487	42,017	1,244	271,748
Equipment	53,246	58,875	34,377	146,498	57,609	-	204,107
Interest	-	-	-	-	202,445	-	202,445
Staff recruitment and retention	60,860	28,276	40,351	129,487	21,425	6,025	156,937
Travel	73,558	36,104	7,316	116,978	8,324	4,247	129,549
Sponsorship facility and meals	-	-	-	-	-	86,674	86,674
Miscellaneous	344	849	-	1,193	10,625	-	11,818
Total expenses	$ 8,494,670	$ 9,674,648	$ 10,965,302	$ 29,134,620	$ 4,845,988	$ 267,193	$ 34,247,801

See independent auditor's report and accompanying notes.

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended June 30, 2019

Cash flows from operating activities:	
Change in net assets	$ 2,570,964
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Write off of uncollectible grants and accounts receivable	198,903
Depreciation and amortization	591,254
In-kind contributions - property and equipment	(199,058)
Gain on disposal of property and equipment	(129,261)
Change in investments - deferred compensation	(44,794)
Loss on interest rate swap agreement	40,996
Changes in operating assets and liabilities:	
Grants and contracts receivable	(475,180)
Prepaid expenses and other current assets	(20,649)
Other assets	2,629
Accounts payable	(297,480)
Accrued payroll and related expenses	(494,901)
Accrued other expenses	236,530
Cash accounts held for clients	(17,555)
Deferred lease liability	27,840
Deferred compensation liability	44,794
Total adjustments	(535,932)
Net cash provided by operating activities	2,035,032
Cash flows from investing activities:	
Proceeds from sale of property and equipment	893,100
Purchases of property and equipment	(182,633)
Net cash provided by investing activities	710,467
Cash flows from financing activities:	
Repayments on line of credit	(783,141)
Principal payments on capital leases	(117,645)
Principal payments on notes payable	(752,338)
Net cash used in financing activities	(1,653,124)
Net change in cash	1,092,375
Cash, beginning of year	2,415,913
Cash, end of year	$ 3,508,288
Supplemental cash flow information:	
Cash paid during the year for interest	$ 202,445
Supplemental schedule of noncash investing and financing activities:	
In-kind contributions - property and equipment	$ 199,058
Property and equipment purchased with capital leases	$ 43,839
Note payable refinanced	$ 1,913,920
Recognition of deferred gain on sale of property	$ 49,285

See independent auditor's report and accompanying notes.

1. Organization

Easter Seals Blake foundation is a non-profit, community-based organization who provides exceptional services, education, outreach and advocacy so that people with disabilities can live, learn, work and play in our communities. Founded in 1950, Easterseals Blake Foundation works in 10 counties of Southern Arizona. Services include comprehensive behavioral health services for children, adults and families; supported day, employment and community living services for individuals with intellectual or physical disabilities; inclusive, quality child-care; early intervention and family preservation services.

Blake Holding Corporation holds title to and manages real and personal property and administrative personnel in support of the programs of Easter Seals Blake Foundation; an organization related through common management.

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). All intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements are presented on the basis of net assets without donor restrictions and net assets with donor restrictions in accordance with accounting principles generally accepted in the United States applicable to nonprofit organizations.

- Net assets without donor restrictions – 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.
- Net assets with donor restrictions – Net assets subject to donor (or grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Public Support and Revenue

Grants and other contributions of cash and other assets are reported as increases in net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Adoption of New Accounting Standard

In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14, "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities." The update addresses the complexity and understandability of net asset classification and deficiencies in information about liquidity and availability of resources. The Organization has implemented ASU 2016-14 and adjusted the presentation in these consolidated financial statements accordingly.

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

Expenses directly attributable to specific programs are charged to those programs, unless prohibited by grant, contract or other restrictions. Some categories of expense are attributable to more than one program and require allocation applied on a basis consistent with the Organization's cost allocation plan. These shared expenses are accumulated in program-based, indirect accounts and allocated to the respective programs on a monthly basis. Occupancy expenses for shared facilities, both those owned and leased, are allocated on the basis of square footage. Indirect personnel expenses, including wages, payroll taxes, benefits, recruiting and training, are allocated based on program full-time equivalents. Maintenance and information technology services are allocated based on service ticket item.

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 year ended June 30, 2019.

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, 2019, there were no uncertain tax positions that are potentially material.

2. Summary of Significant Accounting Policies, Continued

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, 2019. The Federal Deposit Insurance Corporation (FDIC) insures cash accounts at banks up to $250,000 per institution. At June 30, 2019, the Organization has $3,387,001 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.

Grants and Contracts Receivable

The Organization uses the allowance method to account for uncollectible grants and contracts receivable. At June 30, 2019, the balance of grants and contracts receivable contains $595,424 of amounts over ninety days past due. Included in this amount is $324,187 that represents the balance on partially paid medical claims for which the payor has a contractual obligation and $271,237 that represents denied or rejected medical claims. Management recognizes the need for an allowance and records an allowance equal to 10% of denied and rejected medical claims. Currently, management has estimated $29,006 in the allowance for doubtful accounts based on actual losses recognized during the year ended June 30, 2019. Management's policy is to revise the allowance as necessary based on historical trends and available information.

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, 2019 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, 2019 has not been impaired.

2. Summary of Significant Accounting Policies, Continued

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.

3. Liquidity and Availability of Resources

The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Management regularly monitors the availability of financial resources required to meet current operating needs. The Organization utilities a 30-day time horizon to assess its immediate liquidity needs. This standard was established based on defensive interval requirements specified in the contract with the Organization's largest behavioral health payor.

Financial assets available for general expenditure, that is, without donor, grantor or contractual restrictions limiting their use, within one year of the statement of financial position date, are:

Cash	$ 3,467,846
Grants and contracts receivable, net	3,453,970
Total financial resources available within one year	$ 6,921,816

To help manage unanticipated liquidity needs, the Organization has a revolving line of credit in the amount of $2.5 million, of which $1,503,141 was available on June 30, 2019.

4. Grants and Contracts Receivable

Grants and contracts receivable consist of the following at June 30, 2019:

Arizona Department of Economic Security	$ 1,136,296
Arizona Complete Health	995,319
Other grants and accounts receivable	970,293
Banner Health Network	470,899
United Way of Greater Tucson	292,081
United Heath Care	266,517
First Things First	197,261
Casa de los Ninos	178,080
Southwest Human Development	163,334
Grants and contracts receivable, net	$ 4,670,080

5. Investments – Deferred Compensation

Investments held for the deferred compensation liability (see Note 16) consist of mutual funds valued at fair market value. The balance of investments – deferred compensation is $652,951 at June 30, 2019. The net investment gain for the year ended June 30, 2019 was $16,376 and has been recorded in the consolidated statement of activities as an offset to the related change in compensation expense.

6. 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;

Level 2: Inputs to the valuation methodology include:

- 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 methodology used for assets and liabilities measured at fair value. There have been no changes in the methodology used at June 30, 2019.

- *Mutual funds:* Valued at the net asset value of shared held in the deferred compensation plan account at year end.

The method 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 methodology is 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.

Mutual funds, with a value of $652,951 at June 30, 2019, are considered level 1 measurements.

7. Property and Equipment

Property and equipment consists of the following at June 30, 2019:

Land	$ 607,773
Buildings	5,294,058
Building improvements	14,190
Leasehold improvements	837,602
Furniture, fixtures and equipment	827,066
Vehicles	2,152,497
Total property and equipment	9,733,186
Less accumulated depreciation	(4,925,688)
Property and equipment, net	$ 4,807,498

8. Line of Credit

The Organization has a revolving line of credit with a bank. The line of credit has a maximum amount available to borrow of $2,500,000 with an interest rate based on the one-month LIBOR plus 3.0% (with a floor of 4.0%) and matures January 5, 2022. The one-month LIBOR at June 30, 2019 was 2.398%. The line is secured by property liens, accounts receivable, and grants receivable. 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). The outstanding balance at June 30, 2019 was $996,859. The Organization was in compliance with the financial covenants at June 30, 2019.

9. Sale-Leaseback

During the year ended June 30, 2017, the Organization entered into sale-leaseback agreements in connection with the sale of seventeen properties. Under the terms of the agreement, the Organization sold the properties and leased them back with lease terms ranging from seven to ten years. The leasebacks have been accounted for as operating leases. The total gain on the sale was $403,312, of which $49,285 was recognized during the year ended June 30, 2019 and $269,831 remains to be recognized over the remaining lease terms.

10. Capital Leases

The Organization entered into several capital lease agreements during the years ended June 30, 2019 The total cost and accumulated depreciation of the computer equipment under these leases at June 30, 2019 is $613,713 and $246,079, respectively.

10. Capital Leases, Continued

Capital leases payable consists of the following at June 30, 2019:

SHI International Corp, $909 per month including interest through August 2023; collateralized by software licenses.	$	37,931
Blue Street Capital, $2,279 per month including interest through December 2021; collateralized by computer equipment.		62,122
Blue Street Capital, $2,305 per month including interest through December 2021; collateralized by computer equipment.		62,824
Blue Street Capital, $1,854 per month including interest through December 2021; collateralized by computer equipment.		50,545
Blue Street Capital, $1,007 per month including interest through December 2021; collateralized by computer equipment.		27,437
Blue Street Capital, $1,260 per month including interest through July 2022; collateralized by computer equipment.		41,331
Blue Street Capital, $1,182 per month including interest through June 2022; collateralized by computer equipment.		36,776
Blue Street Capital, $1,953 per month including interest through March 2021; collateralized by computer equipment.		37,905
Net minimum lease payments		356,871
Current portion		(128,871)
Non-current portion	$	228,000

The future maximum lease payments due under the capital leases at June 30, 2019 are:

Year ended June 30,:		
2020	$	152,992
2021		147,133
2022		83,877
2023		12,171
2024		2,728
Total lease payments		398,901
Less imputed interest		(42,030)
Net minimum lease payments	$	356,871

11. Notes Payable

Notes payable consists of the following at June 30, 2019:

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.	$	64,724
Note payable to a bank, due in monthly installments of $12,185, including interest at 5.79%, with a final balloon payment of approximately $1,467,933 due December 24, 2028, collateralized by a deed of trust on real property and assigment of rents.		1,895,367
Total notes payable		1,960,091
Current portion		(87,410)
Non-current portion	$	1,872,681

Principal maturities of notes payable are:

Year ended June 30,:		
2020	$	87,410
2021		50,286
2022		40,258
2023		42,686
2024		44,961
Thereafter		1,694,490
	$	1,960,091

In accordance with the bank note payable, the Organization is required to maintain a fixed charge coverage ratio of at least 1.10 to 1 and a debt to net worth ratio of not more than .65 to 1 as measured at each fiscal year-end. At June 30, 2019, the Organization was in compliance with both covenants.

12. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2019 in the amount of $40,442 is comprised of grant money received that is restricted for tuition for the year ended June 30, 2020. The grant was received during the year ended June 30, 2019, and there were no releases as of June 30, 2019.

13. Grant and Contract Revenue

Grant and contract revenue consists of the following for the year ended June 30, 2019:

Arizona Department of Economic Security	$ 13,465,864
Arizona Complete Health	8,173,584
Other grants and contracts	4,858,229
United Way of Greater Tucson	2,923,995
Child Parent Centers, Inc.	2,101,405
First Things First	1,368,010
Banner Health Network	1,718,197
	$ 34,609,284

14. 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. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* for revenues earned under those DES contracts.

However, DES requires the following reconciliation of DES grant and contract revenue for the year ending June 30, 2019:

DES Contract Number	
#E2709013/06032	$ 13,348,283
Safford Childcare P0001269104	28,140
Singal Peak Childcare P0001269106	37,201
Tucson Childcare P0001269102	52,240
	$ 13,465,864

15. Special Events

Special event activities consist of the following for the year ended June 30, 2019:

	Revenue	Expenses	Net Revenue
Celebrity chefs	$ 39,102	$ 20,862	$ 18,240
Golf tournament	17,728	11,867	5,861
Walk With Me and other events	37,160	33,981	3,179
Special events, net	$ 93,990	$ 66,710	$ 27,280

16. 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 year ended June 30, 2019 was $196,249 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, 2019 is $652,951.

17. 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 October 2026. During the year ended June 30, 2019, total rent expense was approximately $2,146,719.

Future minimum lease payments under these leases are:

Year ended June 30,:	
2020	$ 1,680,569
2021	1,286,659
2022	813,679
2023	864,363
2024	756,322
Thereafter	499,537
	$ 5,901,129

18. Contingent Liabilities

The Organization is subject to audit by their grantor agencies. Management does not believe there are any contingent liabilities that would materially impact the financial statements as of June 30, 2019.

19. Concentrations

During the year ended June 30, 2019, the Organization received approximately 39% of its grant and contract revenue from the Arizona Department of Economic Security, and it received approximately 24% of its total grant and contract revenue from Arizona Complete Health. Three funding sources represent 55% of the grants and contracts receivable balance at June 30, 2019. The funding sources represent 24%, 21% and 10%, respectively, of the June 30, 2019 grants and contracts receivable balance.

20. Subsequent Events

On July 1, 2019, the Organization became the sole member of Aviva Children's Services (AVIVA), a nonprofit organization with a mission congruent to the Organization's mission, overlapping clientele and an array of services complementary to those offered by the Organization. Upon agreement by each entity's board of directors, AVIVA's total assets, in the amount of $2,172,444, and liabilities, in the amount of $571,879, were transferred to the Organization with no consideration paid. AVIVA will be operated as a subsidiary of the Organization.

On October 10, 2019, the Organization sold property located in Yuma, Arizona for $226,500. The Organization recorded a loss on the sale in the amount of $26,615.

The Organization was unaware of any additional subsequent events as of February 26, 2020, the date the consolidated financial statements were available to be issued.