Easter Seals Blake Foundation and Subsidiaries
Consolidated Financial Statements
for the Year Ended June 30, 2020

Easter Seals Blake Foundation and Subsidiaries

Consolidated Financial Statements
Year Ended June 30, 2020

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARIES
YEAR ENDED JUNE 30, 2020

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Easter Seals Blake Foundation and Subsidiaries

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Easter Seals Blake Foundation and Subsidiaries (Organization) which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 the Easter Seals Blake Foundation and Subsidiaries as of June 30, 2020, 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.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
March 16, 2021

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

Assets	
Current assets:	
Cash and cash equivalents	$ 4,570,825
Cash and cash equivalents - restricted	18,437
Grants receivable	1,186,553
Contracts receivable, net	3,030,121
Notes receivable	52,013
Prepaid expenses	179,810
Other current assets	10,019
Total current assets	9,047,778
Investments	630,666
Property and equipment, net	6,917,416
Intangible assets	455,000
Other assets	230,755
Total assets	$ 17,281,615
Liabilities	
Current liabilities:	
Accounts payable	$ 1,119,929
Accrued payroll and related expenses	1,583,357
Cash accounts held for clients	21,579
Other accrued expenses	231,212
Refundable advances	39,134
Deferred gain, current portion	49,286
Capital lease payable, current portion	123,203
Notes payable, current portion	87,554
Total current liabilities	3,255,254
Deferred rent	93,164
Deferred gain, non-current portion	171,259
Capital lease payable, non-current portion	94,272
Notes payable, non-current portion	2,268,489
Deferred compensation liability	607,920
Total liabilities	6,490,358
Net assets	
Without donor restrictions:	
Undesignated	5,679,682
Expended for property and equipment	4,123,353
Expended for intangible assets	455,000
Total net assets without donor restrictions	10,258,035
With donor restrictions:	
Purpose restricted	533,222
Total net assets	10,791,257
Total liabilities and net assets	$ 17,281,615

See accompanying notes to financial statements.

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support, and gains:			
Fee for service contracts	$ 28,449,536	$	$ 28,449,536
Grants	8,725,705		8,725,705
Contributions	752,104	585,671	1,337,775
Contributions - in kind	282,752		282,752
Tuition and fees	431,676		431,676
Community living rental income	241,374		241,374
Retail sales	61,924		61,924
Visitation fees	57,061		57,061
Special events, net	40,270		40,270
Investment return, net	11,742		11,742
Other income	59,973		59,973
Gain on sale of property and equipment	67,737		67,737
Acquisition contribution	1,111,482	489,082	1,600,564
Net assets released from restrictions	581,973	(581,973)	
Total revenue, support, and gains	40,875,309	492,780	41,368,089
Expenses:			
Program services:			
Child and family services	8,627,438		8,627,438
Behavioral health	11,371,128		11,371,128
Employment and community living	11,773,407		11,773,407
Foster care services	964,627		964,627
Total program expenses	32,736,600		32,736,600
Supporting services:			
Management and general	4,806,823		4,806,823
Fundraising	488,930		488,930
Total supporting services	5,295,753		5,295,753
Total expenses	38,032,353		38,032,353
Change in net assets	2,842,956	492,780	3,335,736
Net assets, beginning of year	7,415,079	40,442	7,455,521
Net assets, end of year	$ 10,258,035	$ 533,222	$ 10,791,257

See accompanying notes to financial statements.

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services					Supporting Services		
	Child and Family Services	Behavioral Health	Employment and Community Living	Foster Care Services	Total Program Services	Management and General	Fundraising	Totals
Salaries and wages	$ 5,376,366	$ 7,406,506	$ 8,339,674	$ 490,960	$ 21,613,506	$ 2,123,354	$ 195,305	$ 23,932,165
Employee benefits	718,972	745,117	832,514	49,995	2,346,598	290,634	27,917	2,665,149
Payroll taxes	479,877	676,949	780,228	42,840	1,979,894	157,689	15,497	2,153,080
Occupancy	439,466	865,907	802,902	57,444	2,165,719	673,045	2,463	2,841,227
Automobile	174,063	293,553	560,546	8,991	1,037,153	30,456	5,371	1,072,980
Professional services	232,279	451,797	9,602	1,097	694,775	317,261	1,004	1,013,040
Supplies	226,430	125,313	291,985	254,779	898,507	54,958	2,996	956,461
Provider incentives	684,366				684,366			684,366
Information technology	2,080	292,643	254	3,082	298,059	46,990	1,983	347,032
Staff recruitment and retention	65,129	41,268	11,486	5,130	123,013	25,878	1,830	150,721
Telecommunications	61,343	125,048	88,618	10,320	285,329	46,860	2,590	334,779
Other operating	19,645	238,080	20,690	8,207	286,622	119,553	60,577	466,752
Interest						170,590		170,590
Travel	54,184	22,072	9,601	1,207	87,064	6,064	2,111	95,239
Sponsorship facility and meals							168,354	168,354
Equipment	72,672	73,982	25,307	17,532	189,493	139,723	932	330,148
Depreciation and amortization	20,566	12,893		12,675	46,134	598,265		644,399
Miscellaneous				368	368	5,503		5,871
Total expenses	$ 8,627,438	$ 11,371,128	$ 11,773,407	$ 964,627	$ 32,736,600	$ 4,806,823	$ 488,930	$ 38,032,353

See accompanying notes to financial statements.

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

Cash flows from operating activities:	
Change in net assets	$ 3,335,736
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Excess of acquired assets over liabilities in acquisition	(1,452,587)
Depreciation and amortization	644,399
Deferred gain on disposal of property	(49,286)
Net (gain) loss on investments	(44,939)
Net (gain) loss on sale of property and equipment	(18,451)
Changes in assets and liabilities:	
Grants and contracts receivable, net	287,209
Prepaid expenses	41,409
Other current assets	94,996
Other assets	(47,417)
Accounts payable	649,101
Accrued payroll and related expenses	152,756
Cash accounts held for clients	(12,471)
Other accrued expenses	(617,132)
Refundable advances	39,134
Deferred lease liability	(18,937)
Deferred compensation liability	(45,031)
Net cash provided by (used for) operating activities	2,938,489
Cash flows from investing activities:	
Collections on notes receivable	114,184
Proceeds from sale of property and equipment	345,071
Purchases of property and equipment	(1,092,631)
Net cash provided by (used for) investing activities	(633,376)
Cash flows from financing activities:	
Payments on line of credit	(996,859)
Payments on notes payable	(123,588)
Payments on capital lease	(139,396)
Net cash provided by (used for) financing activities	(1,259,843)
Net increase (decrease) in cash, cash equivalents, and restricted cash	1,045,270
Cash, cash equivalents, and restricted cash, beginning of year	3,543,992
Cash, cash equivalents, and restricted cash, end of year	$ 4,589,262
Reconciliation to Consolidated Statement of Financial Position:	
Cash and cash equivalents	$ 4,570,825
Cash restricted for client accounts	18,437
Total cash, cash equivalents, and restricted cash	$ 4,589,262
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	$ 170,590

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Easter Seals Blake Foundation is a non-profit, community-based organization which provides exceptional services, education, outreach and advocacy so that people with disabilities can live, learn, work and play in our communities. Founded in 1950, Easter Seals 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 in support of the programs of Easter Seals Blake Foundation; an organization related through common management.

Aviva Children's Services is a nonprofit organization incorporated in 1999. The mission of Aviva Children’s Services is to improve the quality of life for children who are victims of neglect, abuse, and poverty and in the care of Arizona’s Department of Child Safety. Aviva Children's Services responds to the needs of children in foster care by providing programs and resources to enhance their self-esteem and well-being, as well as supplying clothing, shoes, blankets, and personal care items. As of April 1, 2020, Aviva Children's Services began providing behavioral health services to children in foster care and kinship placements. Aviva Children’s Services is an organization related through common management.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The consolidated financial statements include the accounts of Easter Seals Blake Foundation and its commonly managed subsidiaries, Blake Holding Corporation and Aviva Children’s Services (collectively referred to as the Organization). All intercompany accounts and transactions have been eliminated in consolidation.

The financial statements of the Organization have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to not-for-profit entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing not-for-profit accounting and financial reporting principles. The Organization is required to report information regarding its financial position and activities according to two classes based on the existence or absence of donor-imposed restrictions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accordingly, net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations. A portion of the net assets without donor restrictions has been designated by the Board of Directors as expended for property, equipment, and intangibles to reflect the total carrying value after accumulated depreciation of all property, equipment, and intangibles, net of directly related liabilities. Remaining net assets without donor restrictions are available for general operations of the Organization.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of the Organization and/or the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds must be maintained in perpetuity.

Donor-restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Use of Estimates
In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents
For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments
The Organization reports investments at fair value. Net investment income return is reported in the Statement of Activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment expense.

Concentrations of Credit and Market Risk
Financial instruments that potentially expose the Organization to concentrations of credit and market risk consist primarily of cash equivalents and investments. The Organization maintains its cash and cash equivalents in bank deposit accounts, which, for short periods of time, may exceed federally insured limits. At year end, the carrying amount of the Organization's deposits was $4,589,262 and the bank balance was $5,008,684.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

At year end, $4,624,697 of the Organization's deposits were uninsured and uncollateralized. To minimize risk, cash accounts are maintained at high-quality financial institutions and credit exposure is limited to any one institution. The Organization's investments do not represent significant concentrations of market risk inasmuch as the Organization's investment portfolio is adequately diversified among issuers.

Revenue Recognition

Grants. Grants revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenses in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenses are reported as refundable advances in the statement of financial position. The Organization received cost-reimbursable grants of $25,959 that have been recorded as a refundable advance at June 30, 2020 because qualifying expenses have not yet been incurred.

Fee for Service Contracts. The Organization is a provider of fee for service contracts in which the amount to be paid by the vendor is determined by a formula based on units of service provided by the Organization. Fee for service contracts are recognized as revenue and receivables as the services are rendered and billed using the agreed-upon rate per unit. The vendor is billed monthly for the units of service provided during the preceding month.

Contributions. The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. As of June 30, 2020, contributions approximating $72,079, of which no amounts had been received in advance, have not been recognized in the accompanying financial statements because the conditions have not been met.

Contributions Receivable

Unconditional promises to give that are expected to be collected in less than one year are reported at net realizable value. Unconditional promises to give that are expected to be collected in periods greater than one year are recorded at net present value of expected cash flows. Management does not believe an allowance for uncollectible amounts is necessary based on historical experience with donors, and accordingly has made no allowance for doubtful accounts. As of June 30, 2020, the Organization did not have any contributions receivable.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Grants and Contracts Receivable

Grants and contracts receivable are stated at the amount management expects to collect from outstanding balances. At June 30, 2020, the balance of grants and contracts receivable contains $384,837 of amounts over ninety days past due and $861,537 of medical claims that have been incurred but not yet billed. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts, historical trends, and available information. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At year end, the valuation allowance for accounts receivable was $304,512. Grants and contracts receivable are expected to be collected in less than one year.

Property and Equipment

All acquisitions of property and equipment with a cost in excess of $5,000 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from two to 40 years. Depreciation expense for the current fiscal year was $644,399.

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present.

Goodwill

Goodwill in the amount of $455,000 at June 30, 2020, 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, 2020 has not been impaired.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Deferred Gain

During the year ended June 30, 2017, the Organization entered into sale-leaseback agreements in connection with the sale of 17 properties. Under the terms of the agreement, the Organization sold the properties and leased them back with lease terms ranging from 7 to 10 years. The leasebacks have been accounted for as operating leases. The total gain on the sale was $403,312, of which $49,286 was recognized during the year ended June 30, 2020 and $220,545 remains to be recognized over the remaining lease terms.

Other Assets

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

Deferred Rent

The Organization has entered into operating lease agreements for its facilities, some of which contain provisions for future rent increases. The Organization records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent, which is reflected in a separate line item in the accompanying statement of financial position.

Compensated Absences

Employees are entitled to personal time off (PTO), depending on job classification, length of service, and other factors. It is the Organization's policy to recognize the cost of compensated absence when leave is earned by employees up to a maximum amount to be paid out of 40 hours per employee.

Donated Services and In-Kind Contributions

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset 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 increases in net assets with donor restrictions. 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. The Organization reclassifies net assets with donor restrictions to net assets without restrictions at that time.

Volunteers contribute significant amounts of time to the Organization's program services, administration, and fundraising activities; however the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed in generally accepted accounting principles.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and wages	Full time equivalent
Employee benefits	Full time equivalent
Payroll taxes	Full time equivalent
Occupancy	Square footage
Automobile	Time and effort
Professional services	Time and effort
Supplies	Time and effort
Information technology	Time and effort

Special Events

The Organization held four events with fundraising revenues of $86,372 and direct benefit to donor costs of $46,102, resulting in a net special event revenue of $40,270.

Advertising

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the current fiscal year, advertising costs totaled $51,570.

Income Tax Status

Easter Seals Blake Foundation, Blake Holding Corporation, and Aviva Children's Services are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar State of Arizona tax provisions. In addition, Easter Seals Blake Foundation, Blake Holding Corporation, and Aviva Children's Services qualify for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Form 990s, *Return of Organization Exempt from Income Taxes* are generally subject to examination by the Internal Revenue Service for three years after the dates filed. There were no income taxes paid during the year ended June 30, 2020.

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, 2020, there were no uncertain tax positions that are potentially material.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Pronouncements

During the fiscal year, the Organization adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). The update clarifies the principles for recognizing contract revenue and enhances disclosures sufficient to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

During the fiscal year, the Organization adopted Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The update clarifies and improves the scope and accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

Analysis of the provisions of these standards resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Recent Accounting Pronouncements Issued Not Yet Effective

In February 2016, the FASB issued ASU Update 2016-02, *Leases* (Topic 842). The ASU will require entities to recognize assets and liabilities for both capital and operating leases with lease terms of more than 12 months on the statement of financial position. This ASU is effective for fiscal years beginning after December 15, 2020. The Organization is currently evaluating the effect that this pronouncement will have on its consolidated financial statements and related disclosures.

Date of Management's Review

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 16, 2021, which is the date the financial statements were available to be issued.

NOTE 2 – ACQUISITION OF AVIVA CHILDREN'S SERVICES

On July 1, 2019, Easter Seals Blake Foundation acquired Aviva Children's Services, a non-profit organization with a mission congruent to the Organization's mission, overlapping clientele and an array of services complementary to those offered by the Organization. Aviva Children's Services was acquired because Aviva Children's Services did not have the necessary financial assets to continue to operate independently and meet the obligations stipulated in contributions from donors.

NOTE 2 – ACQUISITION OF AVIVA CHILDREN'S SERVICES

Upon agreement by each entity's board of directors, Aviva Children's Service's transferred the following major classes of assets and liabilities to Easter Seals Blake Foundation with no consideration paid.

Cash and investments	$ 170,631
Property and equipment, net	1,898,429
Other assets	103,384
Other liabilities	52,339
Mortgage payable	519,540
Net assets without donor restrictions	1,111,484
Net assets with donor restrictions	489,081

NOTE 3 – LIQUIDITY AND AVAILABILITY

The following represents the Organization's financial assets at fiscal year end:

Financial assets at year end:	
Cash and cash equivalents	$ 4,570,825
Grants receivable	1,186,553
Contracts receivable, net	3,030,121
Investments	22,746
Total financial assets	8,810,245
Less amounts not available to be used within one year:	
Net assets with donor restrictions	533,222
Less: Net assets with purpose restrictions to be met in less than a year	(533,222)
Financial assets available to meet general expenditures over the next twelve months	$ 8,810,245

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization's goal is generally to maintain financial assets to meet 30 days of operating expenses. This standard was established based on defensive interval requirements specified in contracts with the Organization's largest payers. The Organization does not have a formal policy regarding excess cash. The Organization has a $2.5 million credit line available to meet cash flow needs. The line of credit matures on January 5, 2022. The line of credit has a variable interest rate based on LIBOR with interest due monthly and principal due upon maturity. No funds were borrowed under this agreement during the fiscal year. The Organization received a $2 million cash advance from Arizona Complete Health in October 2019 due to the suspension of payments for outpatient and residential behavioral health services. At year end, the outstanding balance of $375,751 was recorded in accounts payable.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value is defined as the price that the Organization would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

Accounting standards establish a three-tier fair value hierarchy that prioritizes the inputs to valuation techniques. Inputs refer broadly to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Observable inputs are those that reflect the assumptions that market participants would use in pricing the asset and are based on market data obtained from independent sources. Unobservable inputs reflect the Organization's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1: Quoted prices in active markets for identical investments.

Level 2: 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 3: Unobservable inputs for the asset or liability.

The level of fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair Values Measured on Recurring Basis

Fair values of assets measured on a recurring basis at year end are as follows:

	Hierarchy Level	Fair Value
Investments		
Equities	Level 1	$ 4,238
Mutual funds	Level 1	622,759
Oil and gas interests	Level 3	3,669
Total assets		$ 630,666

The following methods and assumptions were used to estimate the fair value for each significant class of financial instrument measured at fair value.

Mutual funds – Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Organization recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels during the current fiscal year.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following.

Land	$ 922,563
Buildings	7,726,350
Leasehold improvements	736,945
Furniture and equipment	1,445,412
Vehicles	2,196,739
Total property and equipment	13,028,009
Less: Accumulated depreciation and amortization	(6,110,593)
Net property and equipment	$ 6,917,416

NOTE 6 – NET ASSETS

Net assets with donor restrictions were as follows:

Specific Purpose:	
El Tour de Tucson	$ 21,546
Aviva Children’s Emergency Needs	486,158
Sibling Reunion Picnics	1,347
Behavioral Health Services Expansion at Aviva Children's Services	24,171
Total	$ 533,222

Net assets released from donor restrictions are as follows:

Satisfaction of purpose restrictions:	
Childcare Tuition	$ 40,442
Aviva Children’s Emergency Needs	325,597
Sibling Reunion Picnics	2,158
Aviva Lifebooks	3,929
Bags for Kids (Divas)	6,330
Holiday/Toy Program	11,360
Aviva Behavioral Health	13,407
Behavioral Health Services Expansion at Aviva Children's Services	178,750
Total	$ 581,973

NOTE 7 – OPERATING LEASE COMMITMENTS

The Organization leases office space, facilities, equipment and vehicles under noncancelable operating leases with various expirations through October 2026. Total rent expense incurred under operating leases totaled $2,210,145 during the fiscal year.

The following is a schedule by years of future minimum rental payments under the leases at year end:

Year End:		
	2021	$ 2,047,632
	2022	1,691,017
	2023	1,043,154
	2024	810,738
	2025	359,221
	2026	309,367
Total		$ 6,261,129

NOTE 8 – NOTES PAYABLE

Notes payable outstanding consisted of the following:

Description	
Note payable to the USDA dated November 1, 2000. Monthly installments of $4,538 at 5.00% interest, maturing in September 2020. Collateralized by present and future income, accounts receivable, real property, and general intangibles.	$ 12,313
Note payable to Bank of West dated December 24, 2018. Monthly installments of $12,185 at 5.79% interest, with a final balloon payment of approximately $1,467,933 due December 24, 2028. Collateralized by a deed of trust on real property and assignment of rents	1,859,773
Mortgage note payable with First Citizens Bank and Trust dated October 20, 2017. Monthly payments of $4,863 at 4.45% interest, maturing in November 2030. Secured by real property.	483,957
Total notes payable	2,356,043
Less: Current portion	(87,554)
Net notes payable, non-current	$ 2,268,489

NOTE 8 – NOTES PAYABLE

The future scheduled maturities of notes payable are as follows:

	2021	$ 87,554
	2022	79,247
	2023	83,471
	2024	87,603
	2025	92,600
	2026-30	1,903,150
	2031	22,418
Total		$ 2,356,043

Note Covenants – The Organization is required to maintain a fixed charge ratio of at least 1.10 to 1.00 and a debt to net worth ration of not more than 0.65 to 1.00 as measured at each fiscal year-end. At June 30, 2020, the Organization was in compliance with both covenants.

In February 2021, the Organization made an additional principal payment of $153,795 on the Note Payable to First Citizens Bank and Trust funded by the Connie Hillman Family Foundation Challenge grant proceeds and capital campaign donations.

NOTE 9 – OBLIGATIONS UNDER CAPITAL LEASES

The Organization leases computer equipment under a capital lease. The economic substance of the lease is that the Organization is financing the acquisition of the assets through the lease, and, accordingly, it is recorded in the Organization's assets and liabilities.

The following is an analysis of the leased assets included in Property and Equipment:

Equipment	$ 613,718
Less: Accumulated depreciation	(377,103)
Total	$ 236,615

NOTE 9 – OBLIGATIONS UNDER CAPITAL LEASES

The following is a schedule by years of future minimum payments required under the lease together with their present value as of year end:

Year End:	
2021	$ 147,133
2022	84,884
2023	12,171
2024	1,819
Total minimum lease payments	246,007
Less: Amount representing interest	(28,532)
Present value of minimum lease payments	217,475
Due within one year	$ 123,203

Amortization of assets held under capital leases is included with depreciation expense.

NOTE 10 – CONCENTRATIONS

The Organization receives the majority of its revenue from grants and contracts as follows.

Funding Source	Support	Percentage
Arizona Department of Economic Security	$13,034,160	35%
Arizona Complete Health	8,885,092	24
United Way of Greater Tucson	2,888,157	8
Banner Health Network	2,765,437	7
Child Parent Centers, Inc.	2,145,899	6
Early Childhood Development and Health Board	1,985,927	5
United Healthcare	1,511,785	4
Other vendors and grantors	3,958,784	11
Total	$37,175,241	100%

NOTE 10 – CONCENTRATIONS

As of June 30, 2020 gross grants and contracts receivable was comprised of:

Funding Source	Support	Percentage
Arizona Department of Economic Security	$ 1,141,949	25%
Arizona Complete Health	999,820	22
United Way of Greater Tucson	287,288	6
Banner Health Network	627,688	14
Child Parent Centers, Inc.	179,229	4
Early Childhood Development and Health Board	285,394	6
United Healthcare	233,377	5
Other vendors and grantors	766,441	17
	$ 4,521,186	100%

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the Organization. In the opinion of management, the liability, if any, for such contingencies will not have a material effect on the Organization's financial position.

NOTE 12 – EMPLOYEE BENEFIT PLANS

Tax-deferred Annuity Plan

The Organization has a tax-deferred annuity plan that qualifies under Section 403(b) of the Internal Revenue Code. The plan covers full-time employees of the Organization. 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 percent of gross salaries to the plan for qualified employees. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish. Plan expenses were $235,640 for the fiscal year.

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, 2020 is $607,920.