**EASTERSEALS BLAKE FOUNDATION AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2024**

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# INDEPENDENT AUDITORS' REPORT

Board of Directors
Easterseals Blake Foundation and Affiliates
Tucson, Arizona

## Report on Audit of Consolidated Financial Statements

### *Opinion*

We have audited the accompanying consolidated financial statements of Easterseals Blake Foundation and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2024, and 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Easterseals Blake Foundation and Affiliates as of June 30, 2024, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Easterseals Blake Foundation and Affiliates and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Change in Accounting Principle*

As discussed in Note 1 to the consolidated financial statements, in 2024, the Organization adopted new accounting guidance for measurement of credit losses on financial instruments. Our opinion is not modified with respect to this matter.

### *Correction of Error*

As discussed in Note 14 to the consolidated financial statements, the Organization discovered miscalculations in bundling of units for time-based medical claims billed. Our opinion is not modified with respect to that matter.

### *Responsibilities of Management for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Easterseals Blake Foundation and Affiliates' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Easterseals Blake Foundation and Affiliates' ability to continue as a going concern for a reasonable period of time.

Board of Directors
Easterseals Blake Foundation and Affiliates

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standa*rds, we have also issued our report dated March 26, 2025, on our consideration of Easterseals Blake Foundation and Affiliates' 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 solely 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 the effectiveness of the Easterseals Blake Foundation and Affiliates' 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 the Easterseals Blake Foundation and Affiliates' internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Tucson, Arizona
March 26, 2025

**EASTERSEALS BLAKE FOUNDATION AND AFFILIATES**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**JUNE 30, 2024**

## ASSETS

| | |
|---|---|
| **CURRENT ASSETS** | |
| Cash and Cash Equivalents | $ 11,722,187 |
| Cash and Cash Equivalents - Restricted | 36,327 |
| Grants Receivable | 869,092 |
| Contracts Receivable | 4,850,924 |
| Allowance for Credit Losses | (1,301,418) |
| Prepaid Expenses | 521,039 |
| Total Current Assets | 16,698,151 |
| Investments | 1,273,067 |
| Property and Equipment, Net | 6,761,949 |
| Other Assets | 94,139 |
| Operating Right-of-Use Assets | 4,495,470 |
| Total Assets | $ 29,322,776 |

## LIABILITIES AND NET ASSETS

| | |
|---|---|
| **LIABILITIES** | |
| Accounts Payable | $ 734,024 |
| Accrued Payroll and Related Expenses | 1,762,286 |
| AHCCCS Payable | 1,700,390 |
| Cash Accounts Held for Clients | 37,806 |
| Other Accrued Expenses | 491,366 |
| Refundable Advances | 2,619,678 |
| Contract Liabilities - Special Events | 15,675 |
| Current Lease Liability - Operating | 1,368,286 |
| Notes Payable, Current Portion | 48,071 |
| Total Current Liabilities | 8,777,582 |
| Operating Lease Liability, Noncurrent Portion | 3,295,800 |
| Notes Payable, Noncurrent Portion | 1,645,466 |
| Deferred Compensation Liability | 1,242,547 |
| Total Liabilities | 14,961,395 |
| **NET ASSETS** | |
| Without Donor Restrictions: | |
| Undesignated | 3,988,701 |
| Expended for Property and Equipment | 6,761,949 |
| Designated by the Board | 3,500,000 |
| Total Net Assets Without Donor Restrictions | 14,250,650 |
| With Donor Restrictions: | |
| Purpose Restricted | 110,731 |
| Total Net Assets | 14,361,381 |
| Total Liabilities and Net Assets | $ 29,322,776 |

*See accompanying Notes to Consolidated Financial Statements.*

**EASTERSEALS BLAKE FOUNDATION AND AFFILIATES**
**CONSOLIDATED STATEMENT OF ACTIVITIES**
**YEAR ENDED JUNE 30, 2024**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **REVENUE, SUPPORT, AND GAINS** | | | |
| Fee for Service Contracts | $ 37,498,468 | $ - | $ 37,498,468 |
| Grants | 11,840,184 | - | 11,840,184 |
| Contributions | 570,569 | 852,824 | 1,423,393 |
| Contributions - In-Kind | 468,675 | - | 468,675 |
| Tuition and Fees | 202,606 | - | 202,606 |
| Community Living Rental Income | 19,703 | - | 19,703 |
| Retail Sales | 76,890 | - | 76,890 |
| Special Events, Net | (13,301) | - | (13,301) |
| Investment Return, Net | 60,056 | (2,922) | 57,134 |
| Other Income | 62,884 | - | 62,884 |
| Gain on Disposal | 53,343 | - | 53,343 |
| Net Assets Released from Restrictions | 913,777 | (913,777) | - |
| Total Revenue, Support, and Gains | 51,753,854 | (63,875) | 51,689,979 |
| **EXPENSES AND LOSSES** | | | |
| Program Services: | | | |
| Child and Family Services | 9,376,443 | - | 9,376,443 |
| Behavioral Health | 16,777,498 | - | 16,777,498 |
| Employment and Community Living | 12,482,350 | - | 12,482,350 |
| Foster Care Services | 2,934,573 | - | 2,934,573 |
| Total Program Services | 41,570,864 | - | 41,570,864 |
| Supporting Services: | | | |
| Management and General | 8,354,286 | - | 8,354,286 |
| Fundraising | 600,290 | - | 600,290 |
| Total Supporting Services | 8,954,576 | - | 8,954,576 |
| Total Expenses | 50,525,440 | - | 50,525,440 |
| Impairment of Goodwill | 318,500 | - | 318,500 |
| Total Expenses and Losses | 50,843,940 | - | 50,843,940 |
| **CHANGE IN NET ASSETS** | 909,914 | (63,875) | 846,039 |
| Net Assets - Beginning of Year, as Restated | 13,340,736 | 174,606 | 13,515,342 |
| **NET ASSETS - END OF YEAR** | $ 14,250,650 | $ 110,731 | $ 14,361,381 |

*See accompanying Notes to Consolidated Financial Statements.*

# EASTERSEALS BLAKE FOUNDATION AND AFFILIATES
# CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
# YEAR ENDED JUNE 30, 2024

| | 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 | $ 5,585,125 | $ 12,278,743 | $ 9,070,573 | $ 1,636,074 | $ 28,570,515 | $ 2,832,985 | $ 288,954 | $ 31,692,454 |
| Employee Benefits | 534,549 | 922,912 | 675,526 | 133,397 | 2,266,384 | 271,308 | 40,647 | 2,578,339 |
| Payroll Taxes | 434,645 | 955,890 | 731,058 | 128,905 | 2,250,498 | 208,871 | 21,654 | 2,481,023 |
| Occupancy | 491,002 | 945,210 | 730,340 | 138,656 | 2,305,208 | 521,582 | 10,284 | 2,837,074 |
| Automobile | 209,968 | 273,611 | 548,178 | 27,148 | 1,058,905 | 96,387 | 12,468 | 1,167,760 |
| Professional Services | 393,270 | 181,063 | 19,693 | 16,671 | 610,697 | 613,896 | 52,287 | 1,276,880 |
| Supplies | 359,621 | 118,261 | 395,156 | 664,990 | 1,538,028 | 24,403 | 37,459 | 1,599,890 |
| Provider Incentives | 892,928 | - | - | - | 892,928 | - | - | 892,928 |
| Information Technology | 1,298 | 372,650 | 2,109 | 15,735 | 391,792 | 185,548 | 5,651 | 582,991 |
| Staff Recruitment and Retention | 141,071 | 137,660 | 50,892 | 12,218 | 341,841 | 35,712 | 2,419 | 379,972 |
| Telecommunications | 81,081 | 201,459 | 98,550 | 26,018 | 407,108 | 117,634 | 5,208 | 529,950 |
| Other Operating | 60,624 | 54,860 | 35,736 | 7,528 | 158,748 | 189,817 | 26,709 | 375,274 |
| Interest | - | - | - | - | - | 101,143 | - | 101,143 |
| Fundraising | - | - | - | - | - | - | 195,861 | 195,861 |
| Travel | 67,305 | 26,574 | 11,092 | 3,760 | 108,731 | 7,651 | 1,937 | 118,319 |
| Sponsorship Facility and Meals | - | 299 | - | 89 | 388 | 437 | 105,212 | 106,037 |
| Equipment | 64,452 | 210,829 | 67,605 | 38,050 | 380,936 | 112,356 | 3,934 | 497,226 |
| Depreciation and Amortization | 40,437 | 56,787 | 14,313 | 80,093 | 191,630 | 312,314 | - | 503,944 |
| Professional Liability Insurance | 18,951 | 40,178 | 31,392 | 5,231 | 95,752 | 68,423 | - | 164,175 |
| Miscellaneous | 116 | 512 | 137 | 10 | 775 | 5,094 | 73 | 5,942 |
| Expenses by Function Before Credit Loss Expense | 9,376,443 | 16,777,498 | 12,482,350 | 2,934,573 | 41,570,864 | 5,705,561 | 810,757 | 48,087,182 |
| Credit Loss Expense | - | - | - | - | - | 2,648,725 | - | 2,648,725 |
| Total Expenses by Function | 9,376,443 | 16,777,498 | 12,482,350 | 2,934,573 | 41,570,864 | 8,354,286 | 810,757 | 50,735,907 |
| Less: Direct Donor Benefit Costs Netted Against Special Event Revenues | - | - | - | - | - | - | (210,467) | (210,467) |
| Total Functional Expenses Reported in the Expense Section on the Consolidated Statement of Activities | $ 9,376,443 | $ 16,777,498 | $ 12,482,350 | $ 2,934,573 | $ 41,570,864 | $ 8,354,286 | $ 600,290 | $ 50,525,440 |

*See accompanying Notes to Consolidated Financial Statements.*

**EASTERSEALS BLAKE FOUNDATION AND AFFILIATES**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**YEAR ENDED JUNE 30, 2024**

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Change in Net Assets | $ 846,039 |
| Adjustments to Reconcile Change in Net Asset to Net Cash Provided by Operating Activities: | |
| Depreciation and Amortization | 503,944 |
| Impairment of Goodwill | 318,500 |
| Credit Loss Expense | 2,648,725 |
| Net Unrealized Loss on Investments | 1,350 |
| Change in Investments - Deferred Compensation | (221,733) |
| Net Loss on Sale of Property and Equipment | 15,784 |
| Noncash Operating Lease Costs Recovery | (30,531) |
| Changes in Assets and Liabilities: | |
| Grants Receivable | 670,467 |
| Contracts Receivable, Gross | (2,827,324) |
| Prepaid Expenses | (140,321) |
| Other Assets | 38,171 |
| Accounts Payable | 20,160 |
| Accrued Payroll and Related Expenses | (70,916) |
| AHCCCS Payable | 309,941 |
| Cash Accounts Held for Clients | 16,109 |
| Other Accrued Expenses | (277,933) |
| Refundable Advances | 605,174 |
| Contract Liabilities - Special Events | 2,500 |
| Deferred Compensation Liability | 221,733 |
| Net Cash Provided by Operating Activities | 2,649,839 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Purchases of Property and Equipment | (1,064,307) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | |
| Payments on Notes Payable | (45,075) |
| **NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH** | 1,540,457 |
| Cash, Cash Equivalents, and Restricted Cash - Beginning of Year | 10,218,057 |
| **CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR** | $ 11,758,514 |
| **RECONCILIATION TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION** | |
| Cash and Cash Equivalents | $ 11,722,187 |
| Cash Restricted for Client Accounts | 36,327 |
| Total Cash, Cash Equivalents, and Restricted Cash | $ 11,758,514 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | |
| Cash Paid During the Year for Interest | $ 101,143 |

*See accompanying Notes to Consolidated Financial Statements.*

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Activities

Easterseals Blake Foundation is a nonprofit, 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, 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 programs 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 Easterseals 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 consolidated 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 Easterseals Blake Foundation and its commonly managed affiliates, 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 consolidated financial statements of the Organization have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to nonprofit entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing nonprofit 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 (CONTINUED)

### Basis of Presentation (Continued)

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. The board of directors has designated, from net assets without donor restrictions, net assets for an operating reserve of $3,500,000 to address the defensive interval requirements of a minimum of 30 days of cash and cash equivalents available. In addition, 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 and amortization 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.

Subsequent to year-end, the Organization’s board of directors increased the designated reserves to $4,000,000 to reflect current spending levels.

*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, whereby 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 consolidated statement of activities as net assets released from restrictions.

### Use of Estimates

In preparing consolidated financial statements in conformity with U.S. GAAP, 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 and assumptions.

### Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

### Restricted Cash

Restricted cash consists of amounts held in Organization bank accounts on behalf of supported employment and community living service clients. At year-end, the restricted cash balance was $36,327.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments

The Organization reports investments at fair value. Net investment income return is reported in the consolidated statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment expenses.

### 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. To minimize risk, cash accounts are maintained at high-quality financial institutions and credit exposure is limited to any one institution. The Organization reduces market risk through diversifying the portfolio among issuers. The Organization’s uninsured cash balances approximated $10,946,000 at June 30, 2024.

### 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 consolidated statement of financial position. The Organization received cost-reimbursable grants of $2,619,678 that have been recorded as a refundable advance at June 30, 2024 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 is 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. The Organization did not have any conditional promises to give at June 30, 2024.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Pledges Receivable

Unconditional promises to give (pledges receivable) 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, 2024, the Organization did not have any contributions receivable.

### Grants Receivable

Grants receivable is stated at the amount management expects to collect from outstanding balances. Grants receivable is considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary. Grants receivable is expected to be collected in less than one year.

### Contracts Receivable

The Organization has adopted the current expected credit losses (CECL) methodology for estimating credit losses on financial assets, effective July 1, 2023, utilizing the modified retrospective transition method. The adoption of CECL resulted in changes to the Organization’s accounting policies, including the recognition of credit losses based on expected future credit losses rather than incurred credit losses. The Organization also updated its account policies for determining the recoverability of trade receivables, loans, and other financial assets.

Contracts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable credit losses through a provision for credit losses 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. Contracts receivable are expected to be collected in less than one year. Net contracts receivable at the beginning of the year was $3,370,907.

Changes in the allowance for credit losses for the year ended June 30, 2024 were as follows:

| | |
|---|---|
| Balance - Beginning of Year | $ 1,008,179 |
| Provision for Losses | 1,816,965 |
| Amounts Written Off | (1,523,726) |
| Balance - End of Year | $ 1,301,418 |

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**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 2 to 40 years.

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 at June 30, 2024.

**Goodwill**

Goodwill represents the excess of the cost over fair value of the net assets the Organization acquired in the acquisition of Supported Living Systems, Inc. (SLS) in 2013. Subsequent to the acquisition, the activities of SLS became a program of Easterseals Blake Foundation. Gross goodwill recorded was $455,000. Goodwill is amortized over 10 years. Amortization expense for the year ended June 30, 2024 was $45,500 and is included in depreciation and amortization in the consolidated statement of functional expenses.

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. At June 30, 2024, the Organization determined the value of goodwill was fully impaired and was written off. The Organization recorded an impairment loss of $318,500 during the year ended June 30, 2024.

**Other Assets**

Other assets consist of security deposits paid for leased properties and an investment in the ES Gaming initiative.

**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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 may contribute time to the Organization's program services, administration, and fundraising activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed in U.S. GAAP.

### Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and in the consolidated 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 | Full-Time Equivalent |
| Information Technology | Time and Effort |
| Other Operating | Time and Effort |

### 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 $45,417.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Income Tax Status

Easterseals 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 (IRC) and similar State of Arizona tax provisions. In addition, Easterseals Blake Foundation, Blake Holding Corporation, and Aviva Children's Services qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have 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 (IRS) for three years after the dates filed. There was no income taxes paid during the year ended June 30, 2024.

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, 2024, there were no material uncertain tax positions.

### Leases

The Organization determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (ROU) assets – operating and lease liability – operating in the consolidated statement of financial position. ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the consolidated statement of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Organization has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

The Organization has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

### Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 26, 2025, which is the date the consolidated financial statements were available to be issued.

Effective March 1, 2025, the Organization entered into a business combination for a total investment approximating $520,000.

## NOTE 2 LIQUIDITY AND AVAILABILITY

The following represents the Organization's financial assets as of June 30, 2024, and available to meet general expenditures within one year of the consolidated statement of financial position date.

| | |
|---|---|
| Financial Assets at Year-End: | |
| Cash and Cash Equivalents | $ 11,722,187 |
| Grants Receivable | 869,092 |
| Contracts Receivable, Net | 4,850,924 |
| Total Financial Assets | 17,442,203 |
| Less Amounts Not Available to be Used Within One Year: | |
| Net Assets with Donor Restrictions | 110,634 |
| Less: Net Assets with Purpose Restrictions to be Met in Less Than a Year | (110,634) |
| Financial Assets Available to Meet General Expenditures Over the Next 12 Months | $ 17,442,203 |

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 $2.75 million credit line available to meet cash flow needs.

## NOTE 3 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.

## NOTE 3 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

*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.

The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. There were no transfers between levels for the year ended June 30, 2024.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the valuation methodologies used at June 30, 2024.

*Equities and Mutual Funds*: Valued at the closing price reported on the active market on which the individual securities are traded.

*Oil and Gas Interests*: Valued by the custodian using the discounted cash flow approach.

Fair values of assets measured on a recurring basis at June 30, 2024 are as follows:

| | | Fair Value Measurements at Report Date Using | | |
|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Investments: | | | | |
| Equities | $ 8,230 | $ 8,230 | $ - | $ - |
| Mutual Funds | 1,263,127 | 1,263,127 | - | - |
| Oil and Gas Interests | 1,710 | - | - | 1,710 |
| Total Investments at Fair Value | $ 1,273,067 | $ 1,271,357 | $ - | $ 1,710 |

Activity for the year ended June 30, 2024 in assets measured on a recurring basis using significant unobservable inputs (Level 3):

| | Balance June 30, 2023 | Purchases | Change in Fair Value | Balance June 30, 2024 |
|---|---|---|---|---|
| Oil and Gas Interests | $ 5,060 | $ - | $ (3,350) | $ 1,710 |

## NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2024

| | |
|---|---|
| Land | $ 1,041,913 |
| Buildings | 8,969,911 |
| Leasehold Improvements | 864,423 |
| Furniture and Equipment | 1,291,774 |
| Assets in Progress | 64,862 |
| Vehicles | 1,445,938 |
| Total Property and Equipment | 13,678,821 |
| Less: Accumulated Depreciation and Amortization | (6,916,872) |
| Property and Equipment, Net | $ 6,761,949 |

Depreciation expense was $458,445 for the year ended June 30, 2024.

## NOTE 5 NET ASSETS

The following is a summary of net assets with donor restrictions at June 30, 2024:

| | |
|---|---|
| Specific Purpose: | |
| Capital Campaign | $ 5,097 |
| Banner Community Reinvestment | 44,214 |
| Inspiring Sobriety | 38,511 |
| Blair Basketball Camp | 5,000 |
| Blues in Bisbee | 12,500 |
| Sibling Reunion Picnics | 1,771 |
| Bags for Kids (Divas) | 3,638 |
| Total | $ 110,731 |

Net assets released from donor restrictions are as follows:

| | |
|---|---|
| Satisfaction of Purpose Restrictions: | |
| LISC Infrastructure | $ 325,000 |
| Banner Community Reinvestment | 5,786 |
| Inspiring Sobriety | 6,489 |
| Bruce Foundation | 14,000 |
| Cooking with the Stars | 1,337 |
| Blues in Bisbee | 3,567 |
| Capital Campaign | 215,868 |
| Aviva Children's Emergency Needs | 259,971 |
| Sibling Reunion Picnics | 3,853 |
| Bags for Kids (Divas) | 3,772 |
| Holiday and Toy Program | 73,681 |
| Lifebooks | 370 |
| Behavior Health - Ranch | 83 |
| Total | $ 913,777 |

## NOTE 6 LEASES

The Organization leases equipment, vehicles, and real estate for various terms under long-term, noncancelable lease agreements. The leases expire at various dates through 2035 and provide for renewal options. In the normal course of business, it is expected that these leases will be renewed or replaced by similar leases.

The following table provides quantitative information concerning the Organization's leases as of or for the year ended June 30, 2024:

| | |
|---|---|
| Lease Costs: | |
| Operating Lease Costs | $ 1,791,132 |
| Short-Term Lease Costs | 1,061,287 |
| Total Lease Costs | $ 2,852,419 |
| Other Information: | |
| Operating Cash Flows for Operating Leases | $ 1,791,132 |
| Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities | $ 1,821,661 |
| Weighted-Average Remaining Lease Term - Operating Leases | 5.15 Years |
| Weighted-Average Discount Rate - Operating | 4.33% |

A maturity analysis of annual undiscounted cash flows for lease liabilities as of June 30, 2024 is as follows:

| Year Ending June 30, | Amount |
|---|---|
| 2025 | $ 1,536,573 |
| 2026 | 1,112,378 |
| 2027 | 755,832 |
| 2028 | 657,038 |
| 2029 | 405,459 |
| Thereafter | 773,409 |
| Total Lease Payments | 5,240,689 |
| Less: Interest | (576,603) |
| Present Value of Lease Liabilities | $ 4,664,086 |

The amounts are presented in the consolidated statement of financial position at June 30, 2024 as follows:

| | |
|---|---|
| Current Lease Liability - Operating | $ 1,368,286 |
| Operating Lease Liability, Noncurrent Portion | 3,295,800 |
| Balance - End of Year | $ 4,664,086 |

## NOTE 7 NOTES PAYABLE

Notes payable consist of the following at June 30, 2024:

| Description | Amount |
|---|---|
| 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. | $ 1,693,537 |
| Less: Current Portion | (48,071) |
| Notes Payable, Noncurrent, Net | $ 1,645,466 |

The future scheduled maturities of notes payable are as follows:

| Year Ending June 30, | Amount |
|---|---|
| 2025 | $ 48,071 |
| 2026 | 50,973 |
| 2027 | 54,048 |
| 2028 | 57,062 |
| 2029 | 1,483,383 |
| Total | $ 1,693,537 |

**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 ratio of not more than 0.65 to 1.00 as measured at each fiscal year-end. In the opinion of management, the Organization was in compliance with both covenants at June 30, 2024.

## NOTE 8 LINE OF CREDIT

The Organization has a $2,750,000 evergreen line of credit with BMO Bank N.A. Interest accrues and is payable monthly at the secured overnight financing rate. The line of credit is secured by the assets of the Organization. Under the terms of the agreement, the Company is required to satisfy certain restricted financial covenants. In the opinion of management, the Organization was in compliance with the covenants at June 30, 2024. There were no draws on the line of credit during the year ended June 30, 2024 and there were no outstanding borrowings at June 30, 2024.

## NOTE 9 CONCENTRATIONS

The Organization receives significant amounts (greater than 10%) of revenue from grants and contracts as follows:

| Funding Source | Revenues | Percentage |
|---|---|---|
| Arizona Department of Economic Security | $ 14,204,662 | 29% |
| Arizona Complete Health | 7,366,142 | 15% |
| Banner Health Network | 5,228,856 | 11% |
| Mercy Care | 5,079,616 | 10% |

As of June 30, 2024, significant receivables related to grants and contracts were due from:

| Funding Source | Receivables | Percentage |
|---|---|---|
| Arizona Department of Economic Security | $ 1,687,175 | 29% |
| Arizona Department of Health Services | 1,115,524 | 20% |
| Arizona Complete Health | 955,756 | 17% |
| Banner Health Network | 649,858 | 11% |

## NOTE 10 COMMITMENTS AND CONTINGENCIES

From time to time, the Organization may be party to certain pending or threatened lawsuits arising out of or incident to the ordinary course of business for which it carries general liability and other insurance coverages. In the opinion of management and based upon consultation with legal counsel, resolution of any pending or threatened lawsuits will not have a material adverse effect on the Organization's consolidated financial statements.

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.

The Organization identified certain behavioral health billing errors dating back to fiscal year 2019. In connection with these errors, the Organization has recorded a payable of $1,700,390, see Note 14. The Organization remitted payment to repay this liability in January 2025.

## NOTE 11 EMPLOYEE BENEFIT PLANS

**Tax-Deferred Annuity Plan**

The Organization has a tax-deferred annuity plan that qualifies under Section 403(b) of the IRC. 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% of gross salaries to the plan for qualified employees. Employees can elect to make contributions to the plan up to the maximum amount allowed by the IRC. Plan expenses were $260,963 for the fiscal year.

## NOTE 11 EMPLOYEE BENEFIT PLANS (CONTINUED)

**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 U.S. GAAP. The balance in the deferred compensation plan as of June 30, 2024 is $1,242,547.

Deferred compensation activity for the year ended June 30, 2024 consists of the following:

| | |
|---|---|
| Balance - Beginning of Year | $ 1,020,814 |
| Employer Contributions | 40,038 |
| Employee Contributions | 40,038 |
| Change in Fair Value | 141,657 |
| Balance - End of Year | $ 1,242,547 |

## NOTE 12 RISK MANAGEMENT

The Organization maintains a self-insurance program for its employees' health care costs. The Organization is liable for losses on claims up to $75,000 per claim and $2,031,161 in total for the year. The Organization has third party insurance coverage for any losses in excess of such amounts. Self-insurance costs are accrued based on claims reported as of the consolidated statement of financial position date as well as an estimated liability for claims incurred but not reported, with a two-year lookback. The total accrued liability for self-insurance costs was $321,428 as of June 30, 2024 and is included in other accrued expenses on the consolidated statement of financial position.

## NOTE 13 CONTRIBUTED NONFINANCIAL ASSETS

The Organization received the following contributions of nonfinancial assets during the fiscal year, which were utilized for the program or supporting service indicated:

| | Program Services | | | | Supporting Services | | |
|---|---|---|---|---|---|---|---|
| | Children and Family Services | Behavioral Health | Employment and Community Living | Foster Care Services | Management and General | Fundraising | Total |
| Auction Items | $ - | $ - | $ - | $ - | $ - | $ 25,418 | $ 25,418 |
| Books and Publications | - | - | - | 632 | - | - | 632 |
| Clothing and Household Goods | 6,738 | 845 | 3,838 | 266,376 | - | 435 | 278,232 |
| Entertainment | 63 | - | - | 6,500 | - | - | 6,563 |
| Food Supply | 6,887 | 34,866 | 42,707 | 14,226 | 12,489 | 9,554 | 120,729 |
| Gift Cards | 100 | - | 500 | 11,482 | - | 4,555 | 16,637 |
| Hygiene and Personal Care | - | - | - | 6,715 | - | - | 6,715 |
| Professional Services | - | - | 286 | - | - | 557 | 843 |
| School Supplies | - | - | - | 12,906 | - | - | 12,906 |
| Total | $ 13,788 | $ 35,711 | $ 47,331 | $ 318,837 | $ 12,489 | $ 40,519 | $ 468,675 |

## NOTE 13 CONTRIBUTED NONFINANCIAL ASSETS (CONTINUED)

Contributed nonfinancial assets received by the Organization are recorded as in-kind contribution revenue with a corresponding in-kind expense. Contributed nonfinancial assets are valued at retail prices that would be received for similar products. There was no donor-imposed restrictions associated with the donated goods. There were no contributed nonfinancial assets monetized during the year ended June 30, 2024.

## NOTE 14 PRIOR PERIOD ADJUSTMENT

During 2024, the Organization discovered miscalculations in bundling of units for time-based medical claims billing in fiscal years 2019 through 2024 that resulted in overstated revenue for those years. The Organization has restated the prior period financials for the portion that relates to 2023 and earlier, and has recorded a related liability to Arizona Health Care Cost Containment System (AHCCCS). The effect on previously issued consolidated financial statements is summarized as follows:

| | AHCCCS Payable | Net Assets |
|---|---|---|
| June 30, 2023, as Originally Reported | $ - | $ 14,905,791 |
| Correction of Error | 1,390,449 | (1,390,449) |
| June 30, 2023, as Restated | $ 1,390,449 | $ 13,515,342 |

# INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND REPORT ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Easterseals Blake Foundation and Affiliates
Tucson, Arizona

We have audited, in accordance with the 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, the consolidated financial statements of Easterseals Blake Foundation and Affiliates, which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 26, 2025.

## Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Easterseals Blake Foundation and Affiliates' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Easterseals Blake Foundation and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of Easterseals Blake Foundation and Affiliates' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2024-001, to be a material weakness.

Board of Directors
Easterseals Blake Foundation and Affiliates

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Easterseals Blake Foundation and Affiliates' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Tucson, Arizona
March 26, 2025

# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Easterseals Blake Foundation and Affiliates
Tucson, Arizona

## Report on Compliance for Each Major Federal Program

### *Opinion on Each Major Federal Program*

We have audited Easterseals Blake Foundation and Affiliates' compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of Easterseals Blake Foundation and Affiliates' major federal programs for the year ended June 30, 2024. Easterseals Blake Foundation and Affiliates' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs

In our opinion, Easterseals Blake Foundation and Affiliates complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

### *Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (Government Auditing Standards); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Easterseals Blake Foundation and Affiliates and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Easterseals Blake Foundation and Affiliates' compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Easterseals Blake Foundation and Affiliates' federal programs.

***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Easterseals Blake Foundation and Affiliates' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate it would influence the judgment made by a reasonable user of the report on compliance about Easterseals Blake Foundation and Affiliates' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Easterseals Blake Foundation and Affiliates' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Easterseals Blake Foundation and Affiliates' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Easterseals Blake Foundation and Affiliates' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

**Report on Internal Control Over Compliance**

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance* with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Board of Directors
Easterseals Blake Foundation and Affiliates

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the consolidated financial statements of Easterseals Blake Foundation and Affiliates as of and for the year ended June 30, 2024, and have issued our report thereon dated March 26, 2025, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Tucson, Arizona
March 26, 2025

# EASTERSEALS BLAKE FOUNDATION AND AFFILIATES
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# YEAR ENDED JUNE 30, 2024

| Federal Grantor/Pass-Through Grantor/ Program or Cluster Title | Federal Assistance Listing Number | Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Total Federal Expenditures |
|---|---|---|---|---|
| **U.S. Department of Agriculture:** | | | | |
| Child and Adult Care Food Program | | | | |
| Pass-Through the Arizona Department of Education | 10.558 | KR02-1170-ALS | $ - | $ 107,373 |
| Total U.S. Department of Agriculture | | | - | 107,373 |
| **U.S. Department of Transportation:** | | | | |
| Enhanced Mobility of Seniors and Individuals with Disabilities | | | | |
| Pass-Through the Arizona Department of Transportation | 20.513 | AZ-2020-050 | - | 10,034 |
| Pass-Through the Arizona Department of Transportation | 20.513 | AZ-2022-028-00 CRRSAA | - | 2,261 |
| Pass-Through the Arizona Department of Transportation | 20.513 | AZ-2022-035-00 | - | 22,753 |
| Pass-Through the Arizona Department of Transportation | 20.513 | AZ-2023-047 | - | 135,260 |
| Pass-Through the Arizona Department of Transportation | 20.513 | G0U22B9T/AZ-2022-035-00 | - | 118,944 |
| Subtotal Transit Services Program Cluster | | | - | 289,252 |
| Rural Transit Assistance Program | | | | |
| Pass-Through the Arizona Department of Transportation | 20.509 | FTA-2019-005-TPM-NRTAP | - | 848 |
| Total U.S. Department of Transportation | | | - | 290,100 |
| **U.S. Department of Health and Human Services:** | | | | |
| Maternal, Infant and Early Childhood Home Visiting Grant | | | | |
| Pass-Through the Arizona Department of Health Services | 93.870 | X1145280 | - | 1,341,260 |
| Block Grants for Community Mental Health Services | | | | |
| Pass-Through Arizona Complete Health (AZCH) | 93.958 | AZCH B09SM083960 | - | 325,920 |
| Pass-Through the Arizona Department of Health Services | 93.958 | HDHS | - | 60,271 |
| Subtotal Block Grants for Community Mental Health Services | | | - | 386,191 |
| Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution | | | | |
| Pass-Through the Arizona Health Care Cost Containment System | 93.498 | FY24 Year 2-3 | - | 1,741,576 |
| Pass-Through the Arizona Division of Developmental Disabilities | 93.498 | FY24 Year 2-3 | - | 1,341,371 |
| Subtotal Provider Relief Fund | | | - | 3,082,947 |
| Total U.S. Department of Health and Human Services | | | - | 4,810,398 |
| Total Expenditure of Federal Awards | | | $ - | $ 5,207,871 |

*See accompanying Notes to Schedule of Expenditures of Federal Awards.*

## NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Easterseals Blake Foundation and Affiliates (the Organization) under programs of the federal government for the year ended June 30, 2024. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization it is not intended to and does not present the financial position, changes in net position or cash flows of the Organization.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the full accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Any negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The auditee elected to use the de minimis cost rate.

## NOTE 3 ASSISTANCE LISTING NUMBERS

The program titles and Assistance Listing numbers were obtained from the federal or pass-through grantor or through sam.gov. If the three-digit Assistance Listing extension is unknown, there is a U followed by a two- digit number in the Assistance Listing extension to identify one or more Federal award lines from that program. The first Federal program with an unknown three-digit extension is indicated with U01 for all award lines associated with that program, the second is U02, etc.

## *Section I – Summary of Auditors' Results*

### *Financial Statements*

1. Type of auditors' report issued: Unmodified

2. Internal control over financial reporting:

   - Material weakness(es) identified? __x__ yes ____ no
   - Significant deficiency(ies) identified? ____ yes __x__ none reported

3. Noncompliance material to financial statements noted? ____ yes __x__ no

### *Federal Awards*

1. Internal control over major federal programs:

   - Material weakness(es) identified? ____ yes __x__ no
   - Significant deficiency(ies) identified? ____ yes __x__ none reported

2. Type of auditors' report issued on compliance for major federal programs: Unmodified

3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ____ yes __x__ no

### *Identification of Major Federal Programs*

| Assistance Living Number(s) | Name of Federal Program or Cluster |
|---|---|
| 93.498 | Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution |

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

Auditee qualified as low-risk auditee? ____ yes __x__ no

## *Section II – Financial Statement Findings*

**2024 – 001**

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

**Condition:** During 2024, the Organization discovered miscalculations in bundling of units for time-based medical claims billing in fiscal years 2019 through 2024 that resulted in overstated revenue for those years. The Organization has restated the prior period financials for the portion that relates to 2023 and earlier, and has recorded a related liability to Arizona Health Care Cost Containment System (AHCCCS).

**Criteria or specific requirement:** The Organization overbilled for claims over the 2019 through 2024 period.

**Effect:** The Organization was required to return approximately $1,700,000 to AHCCCS related to these erroneous claims.

**Cause:** The Organization did not have the proper controls in place to ensure the electronic health record vendor's medical billing system was billing these types of claims correctly.

**Repeat Finding:** No.

**Recommendation:** We recommend that management institute controls to ensure that the medical billing system is billing correctly.

**Views of responsible officials and planned corrective actions:** There is no disagreement with the audit finding. See corrective action plan.

## *Section III – Findings and Questioned Costs – Major Federal Programs*

Our audit did not disclose any matters required to be reported in accordance with *2 CFR 200.516(a).*

easterseals
Blake Foundation

**EASTERSEALS BLAKE FOUNDATION AND AFFILIATES**
**CORRECTIVE ACTION PLAN**
**YEAR ENDED JUNE 30, 2024**

Easterseals Blake Foundation (EBF) and Affiliates respectfully submits the following corrective action plan for the year ended June 30, 2024.

Audit period: July 1, 2023 to June 30, 2024

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**FINDINGS—FINANCIAL STATEMENT AUDIT**

MATERIAL WEAKNESS

2024-001 Miscalculation of Bundling of Units for Time-Based Medical Claims

**Recommendation**: Establish stronger Internal Control(s) in order to identify electronic health record (EHR) chargemaster software related billing errors originating from 3rd Party Software Vendor.

**Explanation of disagreement with audit finding**: There is no disagreement with the audit finding.

**Action taken in response to finding**: EBF conducted a 100% claims review of behavioral health services to AHCCCS beneficiaries over a six-year period and provided a 100% refund to AHCCCS in a self-report on January 21, 2025. Directing the actions of their third-party software vendor (EHR Provider), EBF ensured that vendor corrected the programming errors within the vendor's system and conducted extensive testing to ensure that the issue leading to the overpayment has been corrected. EBF's current system now correctly calculates units for time-based codes for behavioral health services. EBF also provided education and training for their providers and staff regarding time-based codes and billing for such services, consistent with AHCCCS updated Covered Behavioral Health Services Guide, effective October 1, 2024. In addition to updated policies and procedures related to the issue, EBF has implemented controls and regular monitoring of time-based code billing for behavioral health services. This monitoring occurs under the auspices of the EBF Revenue Cycle Management department.

**Name(s) of the contact person(s) responsible for corrective action**: Steven Guthrie (CEO), Renee Cook (Director of Revenue Cycle), Andrea Stuart (Director of Compliance)

**Planned completion date for corrective action plan**: January 21, 2025

For questions regarding this plan, please call any the responsible parties listed above at 520-327-1529.