EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

Audited Consolidated Financial Statements

For the year ended June 30, 2011

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LUDWIG KLEWER & CO. PLLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

To the Boards of Directors
Easter Seals Blake Foundation and Subsidiary

We have audited the accompanying consolidated statement of financial position of Easter Seals Blake Foundation and Subsidiary (nonprofit organizations) as of June 30, 2011, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Easter Seals Blake Foundation and Subsidiary as of June 30, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2011 on our consideration of Easter Seals Blake Foundation and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Ludwig Klewer & Co. PLLC

December 8, 2011

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EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2011

ASSETS

Current assets:	
Cash	$ 414,825
Cash accounts held for clients	36,131
Grants and accounts receivable, net	3,909,109
Prepaid expenses and other current assets	72,091
Total current assets	4,432,156
Investments	6,891
Property and equipment:	
Land	1,165,016
Buildings, improvements and equipment	11,368,829
Total property and equipment	12,533,845
Less accumulated deprecation	(3,530,119)
Property and equipment, net	9,003,726
Intangible assets, net	2,286
Thrift store inventory	17,609
Other assets	181,347
Total assets	$ 13,644,015

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	$ 472,312
Accrued expenses	1,435,969
Cash accounts held for clients	36,131
Line of credit	615,000
Interest rate swap agreement	188,696
Notes payable, current portion	173,334
Total current liabilities	2,921,442
Notes payable, non-current portion	4,148,589
Total liabilities	7,070,031
Net assets:	
Unrestricted:	
General operating	1,892,181
Expended for property and equipment	4,681,803
Total unrestricted net assets	6,573,984
Total net assets	6,573,984
Total liabilities and net assets	$ 13,644,015

See independent auditors' report and accompanying notes.

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2011

	Unrestricted	Temporarily Restricted	Totals
Revenue and support:			
Grants	$ 23,594,274	$ 1,842,554	$ 25,436,828
In-kind contributions	1,287,133	-	1,287,133
Tuition and fees	843,105	-	843,105
Other public support	228,291	-	228,291
Gain on disposal of property and equipment	161,828	-	161,828
Investment income, net	101,247	-	101,247
Special events, net	61,230	-	61,230
Other revenue	37,459	-	37,459
Thrift store, net	(62,324)	-	(62,324)
Total revenue and support	26,252,243	1,842,554	28,094,797
Net assets released from restrictions	1,922,485	(1,922,485)	-
Total revenue, support and reclassifications	28,174,728	(79,931)	28,094,797
Expenses:			
Program services	24,423,185	-	24,423,185
Fund-raising	216,191	-	216,191
Management and general	2,265,707	-	2,265,707
Total expenses	26,905,083	-	26,905,083
Other income (expenses):			
Gain on interest rate swap fair value	16,841	-	16,841
Change in net assets	1,286,486	(79,931)	1,206,555
Net assets, beginning of year, as restated	5,287,498	79,931	5,367,429
Net assets, end of year	$ 6,573,984	$ -	$ 6,573,984

See independent auditors' report and accompanying notes.

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2011

	Program Services	Fund-raising	Management and General	Total
Payroll	$ 15,004,891	$ 122,556	$ 1,350,078	$ 16,477,525
Employee benefits	2,091,809	10,617	182,355	2,284,781
Supplies	1,478,751	12,146	25,005	1,515,902
Professional fees	1,121,844	7,973	337,073	1,466,890
Payroll taxes	1,122,254	7,056	103,163	1,232,473
Rent	850,164	103	8,844	859,111
Depreciation and amortization	715,351	-	38,929	754,280
Interest expense	387,794	2,059	-	389,853
Repairs and maintenance	314,543	567	46,703	361,813
Insurance	271,882	267	8,737	280,886
Small equipment	244,590	23,618	2,849	271,057
Utilities	227,260	-	11,327	238,587
Travel	195,022	742	10,894	206,658
Telephone	172,943	2,435	20,862	196,240
Staff recruitment and retention	125,467	2,851	20,717	149,035
Miscellaneous	154	19,147	98,171	117,472
Bad debt	76,960	-	-	76,960
Advertising	21,506	4,054	-	25,560
Total expenses	$ 24,423,185	$ 216,191	$ 2,265,707	$ 26,905,083

See independent auditors' report and accompanying notes.

EASTER SEALS BLAKE FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended June 30, 2011

Cash flows from operating activities:	
Change in net assets	$ 1,206,555
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Provision for uncollectible grants and accounts receivable	76,960
Net realized and unrealized gain on investments	(106,173)
Depreciation and amortization	754,280
In-kind donations - property and equipment	(300,887)
Gain on disposal of property and equipment	(161,828)
Gain on interest rate swap agreement	(16,841)
Changes in operating assets and liabilities:	
Grants and accounts receivable	(964,119)
Prepaid expenses and other current assets	46,065
Thrift store inventory	(17,609)
Other assets	(64,202)
Accounts payable	(135,670)
Accrued expenses	203,182
Total adjustments	(686,842)
Net cash provided by operating activities	519,713
Cash flows from investing activities:	
Proceeds from sale of investments	657,675
Proceeds from sale of property and equipment	522,260
Purchases of property and equipment	(729,653)
Net cash provided by investing activities	450,282
Cash flows from financing activities:	
Advances on line of credit, net	535,000
Principal payments on notes payable	(1,341,388)
Net cash used in financing activities	(806,388)
Net change in cash	163,607
Cash, beginning of year	251,218
Cash, end of year	$ 414,825
Supplemental cash flow information:	
Cash paid during the year for interest	$ 295,654
Supplemental schedule of noncash investing and financing activities:	
In-kind donations - property and equipment	$ 300,887
Property and equipment purchased with notes payable	$ 297,000

See independent auditors' report and accompanying notes.

1. Organization

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

2. Summary of Significant Accounting Policies

Financial Statement Presentation

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

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

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. A portion of the unrestricted net assets have been designated by the board of directors as expended for property and equipment to reflect the total carrying value after accumulated depreciation of all property and equipment, net of directly related liabilities. Remaining unrestricted net assets are available for general operations of the Organization.

- Temporarily restricted net assets – Net assets that are subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There are no temporarily restricted net assets at June 30, 2011.

- Permanently restricted net assets – Net assets that are subject to donor-imposed stipulations that they be maintained permanently by the Organization. There are no permanently restricted net assets at June 30, 2011.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Contributions of donated non-cash assets are recorded at their fair values in the period received.

Public Support and Revenue

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

2. Summary of Significant Accounting Policies, Continued

Donated Services, Materials and Facilities

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

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

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

Use of Estimates

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

Functional Allocation of Expenses

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

Income Taxes

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

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

Easter Seals Blake Foundation and Blake Holding Corporation both adopted FASB ASC 740. Easter Seals Blake Foundation and Blake Holding Corporation'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, 2011, there were no uncertain tax positions that are potentially material. Easter Seals Blake Foundation and Blake Holding Corporation's federal Form 990, Return of Organization Exempt from Income Tax for 2008, 2009, and 2010 are subject to examination by the IRS, generally for three years after they were filed.

2. Summary of Significant Accounting Policies, Continued

Cash

The Organization considers all highly-liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. At June 30, 2011, the Federal Deposit Insurance Corporation (FDIC) insured cash accounts at banks up to $250,000 per institution. Non-interest bearing cash accounts are fully-insured. The Organization's funds in the bank did not exceed the FDIC limit at June 30, 2011.

Grants and Accounts Receivable

The Organization uses the allowance method to account for uncollectible grants and accounts receivable. At June 30, 2011, the balance of accounts receivable included $235,603 of amounts over ninety days past due. Management recognizes the need for an allowance. Currently, management has estimated $25,632 in the allowance for doubtful accounts based on actual losses recognized during the year ended June 30, 2011. Management's policy is to revise the allowance as necessary based on historical trends.

Property and Equipment

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

The cost of repairs and maintenance is charged to expense in the year incurred. Expenditures that increase the useful lives of the assets are capitalized and depreciated. The Organization's policy is to capitalize expenditures for property and equipment that exceed $1,000. Property and equipment is depreciated using the straight-line method over the following estimated useful lives of the assets:

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

Investments

In accordance with generally accepted accounting principles applicable to nonprofit organizations, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the consolidated statement of financial position. Unrealized gains and losses are included with the change in net assets.

Thrift Store Inventory

Inventory at the thrift store consists of donated furniture, clothing and household supplies. Inventory is valued using a rolling three month average of sales made.

3. Grants and Accounts Receivable

Grants and accounts receivable at June 30, 2011 consist of:

Arizona Department of Economic Security	$ 1,557,486
Casa De Los Niños	755,897
Arizona Department of Transportation	350,213
First Things First	213,680
Southwest Human Development	203,534
Providence of Arizona	187,869
Parent Aide Services	155,411
United Way of Greater Tucson	152,583
Bridgeway Health Solutions	113,568
Other grants and accounts receivable	92,057
Parent Aide Transportation	83,926
Cenpatico	68,517
Total grants and accounts receivable	3,934,741
Less: allowance for doubtful accounts	(25,632)
Grants and accounts receivable, net	$ 3,909,109

4. Investments

Investments are stated at fair value at June 30, 2011 and consist of:

Common stock	$ 6,891
Total investments	$ 6,891

Investment income for the year ended June 30, 2011 consists of:

Interest and dividend income	$ 297
Net realized and unrealized gain	106,173
Investment expense	(5,223)
Investment income, net	$ 101,247

5. Fair Value Measurements

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

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

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;

5. Fair Value Measurements, Continued

- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

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

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2011.

- *Common Stock:* Valued at fair value based on national trade listing.
- *Interest rate swap agreement:* Valued based on the observed LIBOR and other rates.

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

Fair values of financial instruments measured on a recurring basis at June 30, 2011 are:

	Investment Assets			
	Level 1	Level 2	Level 3	Total
Common stock	$ 6,891	$ -	$ -	$ 6,891
Total investments	$ 6,891	$ -	$ -	$ 6,891

	Financial Liabilities			
	Level 1	Level 2	Level 3	Total
Interest rate swap agreement	$ -	$ 188,696	$ -	$ 188,696

6. Property and Equipment

Property and equipment at June 30, 2011 consists of:

Land	$ 1,165,016
Buildings	8,092,612
Building improvements	229,600
Leasehold improvements	466,156
Furniture, fixtures and equipment	534,409
Vehicles	2,046,052
Total property and equipment	12,533,845
Accumulated depreciation	(3,530,119)
Property and equipment, net	$ 9,003,726

7. Intangible Assets

Intangible assets at June 30, 2011 consist of:

Refinance fees	$	10,549
Accumulated amortization		(8,263)
Intangible assets, net	$	2,286

8. Other Assets

Other assets at June 30, 2011 consist of:

Cash surrender value of life insurance policy	$	66,362
Deposits		114,985
Other assets	$	181,347

9. Line of Credit

At June 30, 2011, the Organization had a $2,500,000 revolving line of credit, of which $615,000 was outstanding. The interest rate was based on LIBOR plus 2.75% while at no time falling below 4% (LIBOR at June 30, 2011 was 0.7295%, therefore the interest rate was 4%) and is secured by property liens, accounts receivable, and grants receivable. The outstanding balance on the line is limited to 80% of the balances of "eligible accounts and grants receivable" (primarily defined as balances less than 60 days past due). The line requires monthly payments of interest with any amounts drawn against the line due on May 15, 2012.

10. Notes Payable

Notes payable at June 30, 2011 consists of:

Note payable to the USDA, due in monthly installments of $4,538, including interest at 5.00%, with all principal and interest due February 2020, collateralized by present and future income, accounts receivable, and general intangibles.	$	410,757
Note payable to a bank, due in monthly installments of $9,583, including interest at 8.15% through February 2027, with final balloon payment of $783,348 due February 2017, collateralized by a building and land.		1,004,640
Note payable to a bank, due in monthly installments of $6,653, including interest at 6.875% through January 2015, with final balloon payment of $575,147 due February 2015, collateralized by a building and land.		704,941
Note payable to a bank, due in monthly installments of $1,979, including interest at 7.65% through July 2015, with final balloon payment of $166,748 due August 2015, collateralized by a building and land.		190,149
Note payable to a bank, due in monthly installments of $1,649, including interest at 7.65% through August 2015, with final balloon payment of $139,724 due September 2015, collateralized by a building and land.		169,723

10. Notes Payable, Continued

Principal maturities of notes payable are:

Note payable to a bank, due in monthly installments of $2,992, including interest at 6.84% through September 2017, with final balloon payment of $261,438 due September 2017, collateralized by a building and land.	$ 347,738
Note payable to a bank, due in monthly installments of $4,367, including interest at 6.8% through October 2017, with final balloon payment of $382,181 due October 2017, collateralized by a building and land.	510,750
Note payable to a bank, due in monthly installments of $1,575, including interest at 6.6% through December 2017, with final balloon payment of $139,077 due December 2017, collateralized by a building and land.	188,203
Note payable to a bank, due in monthly installments of $1,490, including interest at 5.89% through April 2018, with final balloon payment of $135,854 due April 2018, collateralized by a building and land.	188,708
Note payable to a bank, due in monthly installments of $1,457, including interest at 6.62% through September 5, 2018, with final balloon payment of $128,515 due September 5, 2018, collateralized by a building and land.	177,804
Note payable to a bank, due in monthly installments of $1,041, including interest at 6.3% through June 18, 2020, with final balloon payment of $93,157 due June 18, 2020, collateralized by a building and land.	136,123
Note payable to a bank, due in monthly installments of $2,245, including interest at 6.58% through February 1, 2021, with final balloon payment of $198,446 due February 1, 2021, collateralized by a building and land.	292,387
Total notes payable	4,321,923
Current portion	(173,334)
Non-current portion	$ 4,148,589

Principal maturities of notes payable are:

Year ended June 30,	
2012	$ 173,334
2013	191,851
2014	205,301
2015	783,528
2016	456,076
Thereafter	2,511,833
	$ 4,321,923

10. Notes Payable, Continued

In accordance with the line of credit and various bank notes payable, the Organization is required to maintain a fixed charge coverage ratio of at least 1.25 to 1 and a debt to net worth ratio of not more than 1.5 to 1 as measured at each fiscal year-end. At June 30, 2011, the Organization was in compliance with both the fixed charge coverage ratio and the debt to net worth covenant ratio.

11. Grant Revenue

Grant revenue for the year ended June 30, 2011 consists of:

Arizona Department of Economic Security	$ 13,367,454
Community contracts	5,664,463
Child Parent Centers, Inc.	1,842,554
Community Partnership of Southern Arizona	1,671,276
United Way	1,355,647
Pima Health Systems	804,926
Arizona Department of Health Services	267,478
City of Tucson	241,825
Southeast Arizona Behavioral Health Systems	119,633
Arizona Department of Education	79,144
Tucson Unified School District	22,428
	$ 25,436,828

12. Grant Revenue – Arizona Department of Economic Security

The Organization has been classified as a vendor, rather than a subrecipient, under some of its contracts with the Arizona Department of Economic Security (DES). The classification of vendor exempts the Organization from the requirements under the U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* for revenues earned under those DES contracts. However, DES requires the following reconciliation of DES grant revenue for the year ending June 30, 2011:

#E2709013	$ 8,522,973
#E1801002	2,915,801
#DES070036-01	675,725
#DES060009-006	439,634
#E4325030	377,431
#DES060512-001	228,766
Other contracts	207,124
	$ 13,367,454

13. Special Events

Special event activities for the year ended June 30, 2011 consist of:

	Revenue	Expenses	Net Revenue
Celebrity chefs	$ 26,550	$ 16,187	$ 10,363
Golf tournament	24,704	14,285	10,419
Walk With Me	60,683	20,235	40,448
Special events, net	$ 111,937	$ 50,707	$ 61,230

14. Thrift Store

Easter Seals Blake Foundation operated a thrift store during the year ended June 30, 2011. The thrift store was closed subsequent to year end. Thrift store activity for the year ended June 30, 2011 consists of:

Revenue	$ 92,710
Cost of good sold	(5,657)
Gross profit	87,053
Selling, general and administrative expenses	(149,377)
Thrift store, net	$ (62,324)

15. Operating Leases

The Organization leases offices and facilities for their programs and administrative offices under non-cancelable, long-term operating leases with various expirations through June 2016. Four of the leases require the Organization to pay for their share of property taxes and common area charges. During the year ended June 30, 2011, rent expense was $890,757.

Future minimum lease payments under these leases are:

2012	$ 670,152
2013	612,828
2014	487,629
2015	312,959
2016	36,852
	$ 2,120,420

16. Contingent Liabilities

The Organization is subject to audit by their grantor agencies. Contingent liabilities to grantors, if any, have not been determined at June 30, 2011.

17. Retirement Plan

The Organization sponsors a salary deferral plan under Section 403(b) of the Internal Revenue Code. The plan allows eligible employees to defer a portion of their compensation on a tax-deferred basis until the employee withdraws the funds. At the board of directors' discretion, the Organization may match employee contributions at the rate of $0.50 per $1.00 up to a maximum of 6% of salary deferred. Total expense under this plan for the year ended June 30, 2011 was $128,867 and is included with employee benefits in the consolidated statement of functional expenses.

18. Concentrations

During the year ended June 30, 2011, the Organization received approximately 63% of its total support and revenue from the Arizona Department of Economic Security.

19. Derivative Transactions

The Organization has a note payable to a bank with a balance at June 30, 2011 of $1,004,640 which is subject to an interest rate swap agreement. The Organization makes limited use of derivative instruments for the purpose of managing interest rate risks. During the year ended June 30, 2011, the Organization had an interest rate swap agreement to reduce the impact of changes in the interest rate on a floating rate real estate note payable. At June 30, 2011, the Organization had one interest rate swap agreement outstanding with a bank, having a total principal amount of $1,123,000. That agreement effectively changes the Organization's maximum interest rate exposure on this floating rate note, due February 2017, to a fixed rate of 8.15%.

19. Derivative Transactions, Continued

The Organization has recognized the derivative liability on the balance sheet at fair value as of June 30, 2011, which was $188,696. The derivative was designated as and met all of the criteria for a cash flow hedge. Changes in the fair value of the derivative are recorded in unrestricted net assets.

20. Restatement of Net Assets

Net assets have been restated as of June 30, 2010 to properly reflect the Organization's liability for payroll related expenses. The previously reported unrestricted net asset balance at June 30, 2010 of $5,550,388 has been restated to $5,287,498.

21. Subsequent Events

The Organization was unaware of any subsequent events as of December 8, 2011, the date the consolidated financial statements were available to be issued.