MARC CENTER OF MESA, INC.
AND
AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

June 30, 2009

MARC CENTER OF MESA, INC.
AND
AFFILIATES

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Schmidt Westergard
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Marc Center of Mesa, Inc. and Affiliates

We have audited the accompanying consolidated statement of financial position of Marc Center of Mesa, Inc. (a nonprofit organization) and Affiliates (collectively, the "Organization") as of June 30, 2009, and the related consolidated statements 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. The prior year summarized comparative information has been derived from the Organization's 2008 consolidated financial statements and, in our report dated October 13, 2008, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the AICPA's Auditing Standards Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Marc Center of Mesa, Inc. and Affiliates as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Schmidt Westergard & Company, PLLC

Mesa, Arizona
September 30, 2009

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MARC CENTER OF MESA, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2009
(with summarized comparative totals as of June 30, 2008)

	2009	2008
ASSETS		
Cash and cash equivalents	$ 4,309,475	$ 3,977,089
Consumer trust funds	40,214	31,870
Accounts receivable, net	1,260,766	1,340,047
Contributions receivable, net	510,432	1,723,443
Prepaid expenses and other	353,994	123,811
Investments	117,848	80,220
Cash restricted to investment in property	-	12,503
Property, net	19,404,596	12,649,345
Deposits	88,160	565,898
TOTAL ASSETS	$ 26,085,485	$ 20,504,226
LIABILITIES AND NET ASSETS		
LIABILITIES		
Consumer trust funds	$ 40,214	$ 31,870
Accounts payable	524,286	347,009
Accrued liabilities	1,246,293	1,130,529
Notes payable	7,101,093	3,635,365
Total liabilities	8,911,886	5,144,773
NET ASSETS		
Unrestricted	15,505,345	12,935,534
Temporarily restricted	1,658,254	2,413,919
Permanently restricted	10,000	10,000
Total net assets	17,173,599	15,359,453
TOTAL LIABILITIES AND NET ASSETS	$ 26,085,485	$ 20,504,226

The accompanying notes are an integral part of this financial statement.

MARC CENTER OF MESA, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2009
(with summarized comparative totals for the year ended June 30, 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2009	Totals 2008
REVENUE AND GAINS (LOSSES)					
Governmental					
Arizona Department of Economic Security	$ 10,389,821	$ -	$ -	$ 10,389,821	$ 10,563,829
Arizona Department of Health Services	10,310,221	-	-	10,310,221	9,896,691
City of Mesa	12,036	-	-	12,036	16,205
Total governmental revenue	20,712,078	-	-	20,712,078	20,476,725
Other					
Service contracts	420,122	-	-	420,122	422,370
Service fees	254,114	-	-	254,114	82,807
United Way contributions	-	90,900	-	90,900	144,115
Other contributions	825,890	378,734	-	1,204,624	1,665,735
Interest income	57,046	336	-	57,382	167,259
Net unrealized losses on investments	(22,373)	-	-	(22,373)	(6,504)
Gain (loss) on disposition of property	36,591	-	-	36,591	(8,708)
Donated facilities	23,349	-	-	23,349	842,121
Other	223,448	-	-	223,448	169,437
Total other revenue and gains (losses)	1,818,187	469,970	-	2,288,157	3,478,632
Total revenue and gains (losses)	22,530,265	469,970	-	23,000,235	23,955,357
Net assets released from restrictions					
Restrictions satisfied by the passage of time	1,225,635	(1,225,635)	-	-	-
EXPENSES					
Program services					
Residential	6,736,433	-	-	6,736,433	6,871,635
Employment services	3,947,132	-	-	3,947,132	3,424,243
Day services	2,604,420	-	-	2,604,420	2,766,519
Home services	3,762,562	-	-	3,762,562	3,533,395
Outpatient clinic	1,139,287	-	-	1,139,287	1,262,493
Total program services	18,189,834	-	-	18,189,834	17,858,285
Supporting activities					
Management and general	2,889,064	-	-	2,889,064	3,482,585
Fundraising	107,191	-	-	107,191	120,095
Total supporting activities	2,996,255	-	-	2,996,255	3,602,680
Total expenses	21,186,089	-	-	21,186,089	21,460,965
CHANGE IN NET ASSETS	2,569,811	(755,665)	-	1,814,146	2,494,392
NET ASSETS – Beginning of year	12,935,534	2,413,919	10,000	15,359,453	12,865,061
NET ASSETS – End of year	$ 15,505,345	$ 1,658,254	$ 10,000	$ 17,173,599	$ 15,359,453

The accompanying notes are an integral part of this financial statement.

MARC CENTER OF MESA, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2009
(with summarized comparative totals for the year ended June 30, 2008)

	Program Services							Supporting Activities			
		Employment	Day	Home	Outpatient	Total Program Services		Management		Total Supporting Activities	
	Residential	Services	Services	Services	Clinic	2009	2008	and General	Fundraising	2009	2008
Salaries	$ 4,314,003	$ 2,289,357	$ 1,450,166	$ 2,668,549	$ 766,210	$ 11,488,285	$ 11,076,530	$ 1,575,637	$ 49,209	$ 1,624,846	$ 1,710,658
Employee-related expenses	791,196	403,815	253,153	449,339	143,132	2,040,635	1,962,085	311,487	11,074	322,561	325,559
Occupancy	673,587	476,732	292,341	172,228	49,356	1,664,244	1,664,224	159,555	5,088	164,643	166,543
Professional fees	83,628	56,965	8,978	208,964	78,222	436,757	359,878	118,737	14,924	133,661	189,441
Transportation	188,645	88,431	143,482	65,708	1,334	487,600	637,464	56,869	1,065	57,934	89,923
Supplies	166,846	269,968	116,713	70,271	17,334	641,132	570,016	266,290	11,158	277,448	295,623
Equipment rental	13,351	47,474	27,542	19,272	13,537	121,176	112,553	29,238	1,873	31,111	29,859
Depreciation	304,207	205,044	212,032	66,515	25,476	813,274	596,523	145,195	5,623	150,818	156,365
Donated facilities	9,043	-	14,306	-	-	23,349	536,121	-	-	-	306,000
Other expenses	191,927	109,346	85,707	41,716	44,686	473,382	342,891	226,056	7,177	233,233	332,709
Total expenses	$ 6,736,433	$ 3,947,132	$ 2,604,420	$ 3,762,562	$ 1,139,287	$ 18,189,834	$ 17,858,285	$ 2,889,064	$ 107,191	$ 2,996,255	$ 3,602,680

The accompanying notes are an integral part of this financial statement.

MARC CENTER OF MESA, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended June 30, 2009
(with summarized comparative totals for the year ended June 30, 2008)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,814,146	$ 2,494,392
Adjustments to reconcile change in net assets to		
net cash provided by operating activities		
Net unrealized losses on investments	22,373	6,504
Depreciation	964,132	752,888
Donated property	(758,894)	(124,235)
Contribution revenue - Forgiveness of debt	(175,951)	
(Gain) loss on disposition of property	(36,591)	8,708
Contributions restricted to investment in property	-	(342,236)
Increase (decrease) in allowance for doubtful accounts	(29,848)	27,950
(Increase) decrease in		
Accounts receivable	109,129	18,968
Contributions receivable, net	53,011	(1,082,952)
Prepaid expenses and other	(230,183)	387
Deposits	477,738	(457,145)
Increase (decrease) in		
Accounts payable	177,277	(56,084)
Accrued liabilities	115,764	179,269
Net cash provided by operating activities	2,502,103	1,426,414
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	3,163
Purchases of investments	(60,001)	-
Purchase of assets restricted to investment in property	-	(342,236)
Proceeds from conversion of assets restricted to		
investment in property	12,503	1,478,420
Proceeds from sale of property	41,700	64,934
Purchases of property	(5,805,598)	(4,022,851)
Net cash used in investing activities	(5,811,396)	(2,818,570)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted to investment in property	-	342,236
Payments on notes payable	(308,742)	(251,984)
Proceeds from borrowings on notes payable	3,950,421	893,462
Net cash provided by financing activities	3,641,679	983,714
Net increase (decrease) in cash and cash equivalents	332,386	(408,442)
CASH AND CASH EQUIVALENTS - Beginning of year	3,977,089	4,385,531
CASH AND CASH EQUIVALENTS - End of year	$ 4,309,475	$ 3,977,089

The accompanying notes are an integral part of this financial statement.

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Marc Center of Mesa, Inc. ("Marc Center") is a nonprofit corporation, incorporated in the state of Arizona on August 6, 1957 to provide places of residence, employment services, training, education, rehabilitation, and behavioral health services for developmentally disabled children and adults, as well as people with severe mental illness. Marc Center provides services throughout Maricopa County, Arizona.

TecMarc, Inc. ("TecMarc") is an Arizona corporation and was incorporated in March 2008 to conduct the business of information technology sales and support. During the year ended June 30, 2009, Tec Marc expanded into property management services also. Marc Center is the sole stockholder of TecMarc.

The Foundation for People with Disabilities (the "Foundation") is a nonprofit corporation, incorporated in the state of Arizona on January 29, 1988, to provide housing for disabled individuals in residential settings and employment training facilities throughout Maricopa County. Marc Center is the sole member of the Foundation's board of directors.

Prior Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or by function. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2008 from which the summarized information was derived.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Marc Center, the Foundation, and TecMarc (collectively, the "Organization"). All significant inter-organization transactions have been eliminated in consolidation.

Basis of Presentation

The consolidated financial statements are presented in accordance with Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to an allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. Accounts receivable are considered past due 30 days after the invoice date. Accounts receivable past due 90 days or more totaled approximately $83,000 and $135,000 as of June 30, 2009 and 2008, respectively. The Organization does not require collateral on accounts receivable balances and does not generally charge interest on past due balances.

Changes in the allowance for doubtful accounts were as follows for the years ended June 30:

	2009	2008
Allowance for doubtful accounts, beginning of year	$ 117,684	$ 89,734
Provision for realization losses	18,934	86,387
Write-offs	(48,782)	(58,437)
Allowance for doubtful accounts, end of year	$ 87,836	$ 117,684

Investments

The Organization accounts for its investments in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, the Organization reports investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. Investments at June 30, 2009 and 2008 totaled approximately $118,000 and $80,000, respectively, all of which was invested in mutual funds. Net unrealized losses for the years ended June 30, 2009 and 2008 totaled approximately $22,000 and $7,000, respectively.

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property

Purchased property is stated at cost. Property acquired by gift is stated at estimated fair value at the date of the contribution. Depreciation is provided using the straight-line method over estimated useful lives ranging from four to twenty-five years. The Organization's policy is to capitalize costs greater than $2,500. In the absence of donor restrictions on how gifts of long-lived assets must be used, the Organization does not imply time restrictions on such contributions.

Governmental Revenue

The Organization has contracts with state governmental agencies and various insurance companies to provide services to clients with developmental disabilities and severe mental illness. Revenue from these contracts is recognized as the services are performed.

Contributions

Contributions of cash or other assets are recognized as revenue when received at the estimated fair value on the date of contribution. Promises to give are recognized as revenue when the donor makes a promise to give to the Organization that is, in substance, unconditional. Promises to give that are received with conditions are not recognized until those conditions are substantially met. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Fundraising Costs

All fundraising costs are expensed in the period incurred.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting activities benefited, determined by specific identification and estimates of time spent and benefits derived.

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Facilities

Until the year ended June 30, 2009, the Organization leased its administrative offices, a day treatment facility and a group home from the City of Mesa. The leases required an annual payment of $1 each. The leases required that the facilities be used to provide services to persons with disabilities and allowed for improvements to be made with approval from the City of Mesa. In July 2009, the property for the administrative offices was transferred to the Organization (Note 5). Accordingly, no amounts have been reflected as donated facilities for the fair rental value of this property for the year ended June 30, 2009. In November 2009, the City of Mesa transferred the other two properties to the Organization (Note 5). The estimated fair rental value of these properties was approximately $23,000 for the year ended June 30, 2009, and has been reflected in other revenue as donated facilities with a corresponding amount as an expense in the accompanying consolidated financial statements.

The estimated fair rental value of these three properties was approximately $842,000 for the year ended June 30, 2008, and has been reflected in other revenue as donated facilities. A corresponding amount has been reflected as an expense in the accompanying consolidated financial statements.

Income Taxes

Marc Center and the Foundation are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no liability or provision for federal or state income taxes is reflected in the accompanying consolidated financial statements.

TecMarc is not exempt from income taxes and its income is subject to taxation. For the year ended June 30, 2009, TecMarc did not have taxable income.

New Accounting Pronouncement

Effective July 1, 2008, the Organization adopted SFAS No. 157, *Fair Value Measurements* (“SFAS 157”). SFAS 157 clarifies the definition of fair value, establishes a framework for defining fair value as it relates to other accounting pronouncements that require or permit fair value measurements, and expands the disclosures of fair value measurements. The adoption of SFAS 157 on July 1, 2008 had no effect on the Organization’s consolidated financial position. See Note 16 for discussion of fair value measurements.

(2) ACCOUNTING ESTIMATES

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

(3) CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at June 30:

	2009	2008
Receivable in less than one year	$ 419,520	$ 1,606,272
Receivable in one to five years	276,650	313,175
Total contributions receivable	696,170	1,919,447
Less - Unamortized discount	(35,738)	(46,004)
Subtotal	660,432	1,873,443
Less - Allowance for uncollectible contributions	(150,000)	(150,000)
Total contributions receivable, net	$ 510,432	$ 1,723,443

Contributions receivable due in more than one year were discounted using rates of approximately 5%.

(4) CONDITIONAL PROMISES TO GIVE

During the years ended June 30, 2007 and 2006, the Organization received conditional promises to give as part of agreements with Value Options (Magellan replaced Value Options as the Regional Behavioral Health Agency ("RBHA") contracted by the Arizona Department of Health Services for Maricopa County, Arizona during the year ended June 30, 2008). Under the 2007 agreement, unrestricted title to two single-family residences with an estimated value of $607,000 at the date of the agreements will be transferred to the Organization if certain conditions are met. Under the 2006 agreement, unrestricted title to one single-family residence with an estimated value of $300,000 at the date of the agreement will be transferred to the Organization if certain conditions are met. The condition for the transfer of title is that the Organization functions as landlord of the residences for a period of twenty-five years. During this period, the Organization will collect rent from the tenants and will be responsible for repairs and maintenance on the residences.

(4) CONDITIONAL PROMISES TO GIVE (continued)

During the year ended June 30, 2002, the Organization received a conditional promise to give as part of an agreement with Value Options. Under the agreement, unrestricted title to a 12-unit apartment building will be transferred to the Organization if certain conditions are met. The estimated value of the property was $450,000 at June 30, 2002. The condition for the transfer of title is that the Organization functions as landlord of the building for a period of fifteen years. During this period, the Organization will collect rent from the tenants and will be responsible for repairs and maintenance on the building. Under a separate agreement with Value Options, the Organization provides services to the tenants of the building.

(5) PROPERTY

Property consisted of the following at June 30:

	2009	2008
Land	$ 4,136,712	$ 2,606,451
Buildings	14,951,689	4,139,805
Leasehold improvements	1,004,125	5,041,010
Vehicles	1,690,287	1,625,251
Furniture and equipment	782,613	651,260
Construction in progress	1,019,171	2,221,500
Total property	23,584,597	16,285,277
Less - Accumulated depreciation	(4,180,001)	(3,635,932)
Property, net	$ 19,404,596	$ 12,649,345

Depreciation expense for the years ended June 30, 2009 and 2008 totaled approximately $964,000 and $753,000, respectively, of which approximately $103,000 and $113,000, respectively, represents depreciation expense from the Foundation.

(5) PROPERTY (continued)

During the year ended June 30, 2004, Maricopa County transferred title of a property to the Organization with an estimated fair value of $543,000. The transfer agreement stipulated that the Organization must use this property in qualifying programs for five years after the date of transfer. In addition, Maricopa County was entitled to 50% of any proceeds from the sale of the property through November 2028. During the year ended June 30, 2007, the transfer agreement was revised, modifying the previous restrictions on the property. The revised agreement states that should the Organization sell the property, it must invest the proceeds in capital projects that meet the needs of people with disabilities. In addition, the agreement stipulates that new and existing structures on the property are required to meet any Community Development Block Grant requirements. The $543,000 from this transfer was recorded as temporarily restricted contribution revenue for the year ended June 30, 2004 and was released from temporarily restricted net assets during the year ended June 30, 2009.

During the year ended June 30, 2004, the City of Mesa transferred title of two properties to the Organization with an estimated total fair value of $327,000. The transfer agreement stipulated that the Organization must use these properties in qualifying programs for five years after the date of transfer. In addition, the Organization was required to sign two promissory notes totaling approximately $176,000 (see Note 7), which were forgiven during the year ended June 30, 2009 at the end of the five year period because the Organization had used the properties in qualifying programs. Accordingly, approximately $176,000 was recognized as unrestricted contribution revenue during the year ended June 30, 2009. Approximately $151,000 from this transfer was recorded as temporarily restricted contribution revenue for the year ended June 30, 2004 and was released from temporarily restricted net assets during the year ended June 30, 2009.

In July 2008, the City of Mesa transferred title of a property to the Organization with an estimated fair value of $1,160,000. Prior to the transfer, the property was leased from the City of Mesa (see Note 1 – Donated Facilities). The transfer agreement stipulated that the Organization must use this property in qualifying programs for five years after the date of transfer. In addition, the Organization was required to sign a promissory note in the amount of $1,600,000, which will be forgiven at the end of the five year period if the Organization has used the property in qualifying programs. The note does not accrue interest and the Organization is not required to make any payments. Since the Organization believes that the probability of triggering any payments on this note is highly remote, the $1,160,000 has not been recorded as a liability in the accompanying consolidated statement of financial position. Because the City of Mesa had promised to make this contribution during the year ended June 30, 2008, the $1,600,000 was recorded in contributions receivable in the accompanying consolidated statement of financial position at June 30, 2008 and was reflected as temporarily restricted contribution revenue for the year ended June 30, 2008.

(5) PROPERTY (continued)

In November 2008, the City of Mesa transferred title to one residential property and one commercial property to the Organization. Approximately $270,000 of contribution revenue was recognized by the Organization during the year ended June 30, 2009 related to the transfer of these properties. The transfer agreements stipulated that the properties must be used in qualifying programs for five years from the date of the transfers. In addition, the Organization was required to sign two promissory notes to the City of Mesa totaling $399,000, which will be forgiven at the end of the five year period if the Organization has used the properties as required. The notes do not accrue interest and the Organization is not required to make any payments. Since the Organization believes that the probability of triggering any payments on this note is highly remote, the $399,000 has not been recorded as a liability in the accompanying consolidated statement of financial position at June 30, 2009.

(6) NOTE PAYABLE - BANK LINE OF CREDIT

The Organization had a $500,000 revolving line of credit with a bank which bore interest at prime. This line of credit was collateralized by substantially all the assets of the Organization and expired in December 2008. There was no activity on this line of credit during the year ended June 30, 2009.

(7) NOTES PAYABLE

	2009	2008
Note payable to a bank for construction loan; credit line totaling $3,000,000; draw period ended in July 2009; during draw period interest only payment due monthly at LIBOR, as defined, plus 1.99%; rate changes every three months from the note date based on the LIBOR rate then in effect, all unpaid principal and interest due in July 2011; collateralized by real property.	$ 2,922,151	$ -
Notes payable to a bank; due in monthly installments totaling approximately $12,000, including interest ranging from 5.25% to 6.5%, with a weighted average interest rate of 5.13%; maturing through October 2018; collateralized by real property.	1,008,609	1,098,097

(7) NOTES PAYABLE (continued)

Note payable to a bank for a construction loan; credit line totaling $960,000; draw period ended in October 2007; due in monthly installments of principal and interest of approximately $7,000, including interest at the Treasury Securities Index (as defined) immediately preceding the date of the note (4.65%) plus 1.90%, with the interest rate to change on each ten year anniversary from the date of the note based on the Treasury Securities Index (as defined) then in effect, plus 1.90%; maturing in October 2027; prepayment penalty as defined in the note, but not to exceed 5% of the prepaid principal amount; collateralized by real property.	917,221	942,309
Note payable to a bank to facilitate construction; interest only payments due monthly at prime (3.25% at June 30, 2009); principal balance plus all unpaid interest due at maturity in July 2009, at which time the note was to be converted into a monthly installment loan; instead, was paid in full with proceeds from the July 2009 bond issuance (Note 16); collateralized by real property.	646,800	646,800
Notes payable to a bank; due in monthly installments totaling approximately $6,000; including interest at the Treasury Securities Rate, as defined, at the date of the note plus a margin ranging from 3.82% to 5.953%; with the interest rate to change on each five year anniversary of the note date based on the Treasury Securities Rate then in effect; maturing between September 2023 and January 2024; collateralized by real property.	643,918	-
Notes payable to banks and finance companies; due in monthly installments totaling approximately $10,000, including interest ranging from 2.90% to 8.25%, with a weighted average interest rate of 6.98%; maturing through August 2013; collateralized by vehicles and equipment.	261,074	143,670

(7) NOTES PAYABLE (continued)

Notes payable to a bank; due in monthly installments of approximately $1,500 including interest at 6.50%; maturing in June 2037; collateralized by real property.	208,665	211,213
Note payable to a bank; due in monthly installments of approximately $2,600, including interest at the Treasury Securities Index (as defined) immediately preceding the date of the note (4.19%) plus 3.01%, with the interest rate to change on each seven year anniversary from the date of the note based on the Treasury Securities Index (as defined) then in effect; maturing in August 2024; collateralized by real property.	201,874	217,618
Note payable to a finance company; due in monthly installments of approximately $4,000, including interest at approximately 6.4%; final payment in September 2013; collateralized by software and equipment.	167,756	199,707
Note payable to a bank; due in monthly principal payments of approximately $500; interest accrues at LIBOR, as defined, plus 2.41% but is not due until maturity in July 2011, at which time all unpaid principal and interest is due; collateralized by real property.	123,025	-
Note payable to City of Mesa related to property contributed during the year ended June 30, 2004; collateralized by property; no payments or interest due unless property was sold or if agreement to use property in qualifying programs was violated; balance was forgiven five years from the date of the note in January 2009 and was recorded as contribution revenue at that time.	-	175,951
Total notes payable	$ 7,101,093	$ 3,635,365

(7) NOTES PAYABLE (continued)

Annual principal payments on notes payable are scheduled as follows:

Year Ending June 30	
2010	$ 1,099,037
2011	447,222
2012	3,039,954
2013	275,626
2014	219,152
Thereafter	2,020,102
Total notes payable	$ 7,101,093

Interest expense for the years ended June 30, 2009 and 2008 totaled approximately $258,000 and $169,000, respectively, of which approximately $58,000 and $63,000 represents interest expense from the Foundation for the years ended June 30, 2009 and 2008, respectively. In addition, approximately $24,000 and $8,000 of interest expense was capitalized during the years ended June 30, 2009 and 2008, respectively.

Certain agreements require the Organization to maintain certain financial ratios, such as current ratio, debt service coverage ratio, and debt to net worth ratio, as defined in the agreements. At June 30, 2009, the Organization was in compliance with these requirements.

(8) RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30:

	2009	2008
Restrictions on donated property (Note 5)	$ 1,429,514	$ 693,849
Time restrictions on contributions receivable	200,120	185,297
Capital campaign - New employment building	-	1,506,489
Other	28,620	28,284
Total temporarily restricted net assets	$ 1,658,254	$ 2,413,919

Permanently restricted net assets are to be maintained in perpetuity. The income from these funds is temporarily restricted for use in promoting independent living.

(9) CAPITAL CAMPAIGNS

Administrative and Day Services Program Building

Contributions receivable at June 30, 2009 included two promises to give related to the administrative and day services program building capital campaign totaling approximately $195,000 (net of unamortized discount on long-term promises to give totaling approximately $23,000).

Employment Building

During the year ended June 30, 2005, the Organization commenced a capital campaign to raise money for a new 34,000 square foot employment building to replace existing facilities on its main campus and to accommodate growth in employment programs. During the year ended June 30, 2009, construction on the new employment building was completed.

Contributions receivable at June 30, 2009 included one promise to give related to the employment building of approximately $253,000 (net of unamortized discount on long-term promises to give of approximately $13,000).

(10) CASH FLOW INFORMATION

Supplemental Disclosure of Cash Flow Information

Cash paid for interest was approximately $282,000 and $177,000, of which approximately $24,000 and $8,000 was capitalized for the years ended June 30, 2009 and 2008, respectively.

Summary of Noncash Investing and Financing Activities

During the year ended June 30, 2009, the Organization reduced contributions receivable and recorded property of approximately $1,160,000 related to a promise to give land by the City of Mesa (see Note 5).

(11) COMMITMENTS

The Organization leases office space, residential houses, and vehicles and equipment under various non-cancelable operating leases that expire at various dates through March 2013. Several leases have renewal options. The Organization also leases residential houses and equipment under various month-to-month leases.

(11) COMMITMENTS (continued)

Future minimum lease payments under non-cancelable operating leases with initial or remaining terms in excess of one year are scheduled as follows:

Year Ending June 30	
2010	$ 637,809
2011	468,627
2012	287,102
2013	30,598
Total future minimum lease payments	$ 1,424,136

Rent expense for the years ended June 30, 2009 and 2008 totaled approximately $591,000 and $549,000, respectively, not including the fair rental value of donated facilities (see Note 1) of approximately $23,000 and $842,000, respectively.

(12) CONCENTRATIONS

Revenue

The Organization received significant portions of its total revenue for the year ended June 30, 2009 from the Arizona Department of Economic Security ("DES") and the Arizona Department of Health Services ("ADHS") through contracts that are renewed annually. Revenue from Value Options and Magellan makes up approximately 92% and 90% of the governmental revenue from the Arizona Department of Health Services as reported in the consolidated statement of activities for the years ended June 30, 2009 and 2008, respectively.

The percentage of total revenue and the amount of accounts receivable (before the allowance for doubtful accounts) from DES and ADHS are as follows as of and for the years ended June 30:

	2009		2008	
	Total Revenue	Accounts Receivable	Total Revenue	Accounts Receivable
DES	45%	$ 888,483	44%	$ 1,017,324
ADHS	45%	176,624	42%	333,815
Total	90%	$ 1,065,107	86%	$ 1,351,139

(12) CONCENTRATIONS (continued)

Uninsured Cash

The Organization maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and does not expect to experience any such losses. However, at June 30, 2009, the Organization's uninsured balance was approximately $3,967,000.

(13) EMPLOYEE BENEFIT PLANS

The Organization sponsors a defined contribution plan (the “Plan”) covering substantially all employees. The Plan provides for employer contributions based primarily on employee participation. The total contributions made to the Plan by the Organization were approximately $183,000 and $217,000 for the years ended June 30, 2009 and 2008, respectively.

The Organization also has a non-qualified deferred compensation plan (the “Non-Qualified Plan”) covering certain officers and executives. The Non-Qualified Plan provides for employer contributions at the discretion of the Board of Directors of the Organization. Employee deferrals are limited to 85% of annual compensation. Total contributions made to the Non-Qualified Plan by the Organization were approximately $65,000 and $62,000 for the years ended June 30, 2009 and 2008, respectively, all of which was included in accrued liabilities at June 30, 2009 and 2008.

(14) RELATED PARTY TRANSACTIONS

Contributions from members of the Board of Directors and employees totaled approximately $1,000 and $9,000 for the years ended June 30, 2009 and 2008, respectively. Included in contributions receivable at June 30, 2009 and 2008 was approximately $5,000 and $6,000, respectively, from members of the Board of Directors and employees.

(15) LITIGATION

The Organization is involved in legal proceedings which are being defended and handled in the ordinary course of business. The Organization believes that the results of these legal proceedings will not have a material adverse effect on the Organization's financial condition.

(16) FAIR VALUE MEASUREMENTS

As described in Note 1, the Organization adopted SFAS 157, which defines fair value, establishes a framework for measuring fair value and expands disclosure requirements. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an "exit price") on the measurement date in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants (with no compulsion to buy or sell). SFAS 157 outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. Under generally accepted accounting principles, certain assets and liabilities must be measured at fair value, and SFAS 157 details the disclosures that are required for items measured at fair value.

Assets and liabilities measured at fair value are measured using inputs from the three levels of the SFAS 157 fair value hierarchy. The three levels are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets and 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 (i.e., interest rates, yield curves, etc.);
- 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.

For assets and liabilities measured at fair value on a recurring basis, the fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety.

(16) FAIR VALUE MEASUREMENTS (continued)

Following is a description of the valuation methodologies used for assets measured at fair value:

Investments

Investments are value at the net asset value of shares held by the Organization. Net asset value is based on quoted market prices for identical assets.

Donated property

Donated property recorded during the year ended June 30, 2009 from the City of Mesa was valued using appraisals by certified professionals. Those appraisals considered the cost, income, and market approaches, but gave more weight to the market approach.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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 assets could result in a different fair value measurement.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets that are measured at fair value as of June 30, 2009 or during the year then ended:

	Level 1	Level 2	Level 3	Total
Investments	$ 117,848	$ -	$ -	$ 117,848
Donated property	-	269,514	-	269,514
Total	$ 117,848	$ 269,514	$ -	$ 387,362

As described in Note 1, the donated property was recorded at fair value at the date of donation. Thereafter, it is carried at the net of the original fair value, less accumulated depreciation.

(17) SUBSEQUENT EVENTS

Subsequent events were evaluated by management through September 30, 2009, the date on which the consolidated financial statements were issued.

Bond Issuance

On July 24, 2009, Marc Center issued a tax free bond in the amount of $9,121,000 for purposes of reducing monthly principal and interest payments, consolidating debt, and acquiring funding for specific expansion projects. The bond has a variable interest rate tied to the one-month LIBOR rate, as defined, has a ten year maturity, and is amortized over twenty-five years. To hedge against the financial exposure tied to movements in interest rates, the agency has entered into an interest rate swap agreement which effectively converts the variable rate to a 4.8% fixed rate for $7,500,000 of the bond. The swap is a separate contract with a ten year maturity coinciding with the life of the bond. The value of the swap instrument will fluctuate up or down based upon movements in interest rates. If the swap contract were to be cancelled prematurely, Marc Center would realize a gain or loss depending on the current value of the swap instrument. The estimated fair value of the swap contract at September 15, 2009 would result in a loss of approximately $263,000.

Line of Credit

On August 26, 2009, Marc Center obtained a revolving line of credit facility secured primarily by receivables and furniture and equipment. The maximum line of credit is $750,000, but cannot exceed the balance of outstanding receivables (as defined). Outstanding balances will be charged interest based on LIBOR plus 3.25% with a 4% floor.