MARC CENTER OF MESA, INC.
AND
AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

June 30, 2010

MARC CENTER OF MESA, INC.
AND
AFFILIATES

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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, 2010, 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 2009 consolidated financial statements and, in our report dated September 30, 2009, 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, 2010, and the changes in their net assets and their 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
October 29, 2010

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MARC CENTER OF MESA, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2010
(with summarized comparative totals as of June 30, 2009)

	2010	2009
ASSETS		
Cash and cash equivalents	$ 6,036,534	$ 4,309,475
Consumer trust funds	618,513	40,214
Accounts receivable, net	1,266,120	1,260,766
Due from related parties	17,363	-
Contributions receivable, net	360,988	510,432
Prepaid expenses and other	69,398	353,994
Investments	196,015	117,848
Investments in and receivable from affiliates	221,161	-
Property, net	19,861,020	19,404,596
Bond issuance costs, net	341,341	-
Deposits	24,781	88,160
TOTAL ASSETS	$ 29,013,234	$ 26,085,485
LIABILITIES AND NET ASSETS		
LIABILITIES		
Consumer trust funds	$ 618,513	$ 40,214
Accounts payable	602,140	524,286
Accrued liabilities	1,848,421	1,246,293
Derivative financial instrument	525,110	-
Notes payable	360,218	7,101,093
Bond payable	7,367,360	-
Total liabilities	11,321,762	8,911,886
NET ASSETS		
Unrestricted	17,042,759	15,505,345
Temporarily restricted	638,713	1,658,254
Permanently restricted	10,000	10,000
Total net assets	17,691,472	17,173,599
TOTAL LIABILITIES AND NET ASSETS	$ 29,013,234	$ 26,085,485

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, 2010
(with summarized comparative totals for the year ended June 30, 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2010	Totals 2009
REVENUE AND GAINS (LOSSES)					
Governmental					
Arizona Department of Economic Security	$ 9,721,086	$ -	$ -	$ 9,721,086	$ 10,389,821
Arizona Department of Health Services	12,365,106	-	-	12,365,106	10,310,221
City of Mesa	20,394	-	-	20,394	12,036
Other	227,742	-	-	227,742	-
Total governmental revenue	22,334,328	-	-	22,334,328	20,712,078
Other					
Service contracts	461,731	-	-	461,731	420,122
Service fees	352,842	-	-	352,842	254,114
United Way contributions	28,972	84,700	-	113,672	90,900
Other contributions	751,160	233,000	-	984,160	1,204,624
Interest income	8,262	154	-	8,416	57,382
Net unrealized gains (losses) on investments	12,667	-	-	12,667	(22,373)
Gain on disposition of property	21,800	-	-	21,800	36,591
Rental income	93,015	-	-	93,015	-
Donated facilities	-	-	-	-	23,349
Income (loss) from affiliates	(80,682)	-	-	(80,682)	-
Other	129,572	-	-	129,572	223,448
Total other revenue and gains (losses)	1,779,339	317,854	-	2,097,193	2,288,157
Total operating revenue and gains (losses) before supporting lines of business	24,113,667	317,854	-	24,431,521	23,000,235
Supporting lines of business revenue	488,986	-	-	488,986	-
Less costs of supporting lines of business	(318,427)	-	-	(318,427)	-
Gross profit on supporting lines of business	170,559	-	-	170,559	-
Total revenue and gains	24,284,226	317,854	-	24,602,080	23,000,235
Net assets released from restrictions	1,337,395	(1,337,395)	-	-	-
EXPENSES					
Program services					
Residential	6,665,884	-	-	6,665,884	6,736,433
Employment services	4,002,021	-	-	4,002,021	3,947,132
Day services	2,610,360	-	-	2,610,360	2,604,420
Home services	5,638,701	-	-	5,638,701	3,762,562
Outpatient clinic	1,192,366	-	-	1,192,366	1,139,287
Total program services	20,109,332	-	-	20,109,332	18,189,834

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

MARC CENTER OF MESA, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES (CONTINUED)
For the year ended June 30, 2010
(with summarized comparative totals for the year ended June 30, 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2010	Totals 2009
EXPENSES (continued)					
Supporting activities					
Management and general	3,138,180	-	-	3,138,180	2,889,064
Fundraising	113,461	-	-	113,461	107,191
Supporting lines of business	192,332	-	-	192,332	-
Total supporting activities	3,443,973	-	-	3,443,973	2,996,255
Total expenses	23,553,305	-	-	23,553,305	21,186,089
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER CHARGES	2,068,316	(1,019,541)	-	1,048,775	1,814,146
OTHER CHARGES					
Unrealized loss on derivative financial instrument	(525,110)	-	-	(525,110)	-
CHANGE IN NET ASSETS	1,543,206	(1,019,541)	-	523,665	1,814,146
NET ASSETS – Beginning of year	15,505,345	1,658,254	10,000	17,173,599	15,359,453
Net liabilities assumed - Advocates for the Disabled	(5,792)	-	-	(5,792)	-
NET ASSETS – End of year	$ 17,042,759	$ 638,713	$ 10,000	$ 17,691,472	$ 17,173,599

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, 2010
(with summarized comparative totals for the year ended June 30, 2009)

	Program Services							Supporting Activities				
						Total Program Services				Supporting	Total Supporting Activities	
	Residential	Employment Services	Day Services	Home Services	Outpatient Clinic	2010	2009	Management and General	Fundraising	Lines of Business	2010	2009
Salaries	$ 4,149,672	$ 2,314,979	$ 1,430,379	$ 3,481,285	$ 770,344	$ 12,146,659	$ 11,488,285	$ 1,737,038	$ 77,654	$ 66,408	$ 1,881,100	$ 1,624,846
Employee-related expenses	770,528	410,900	270,954	635,527	138,009	2,225,918	2,040,635	349,819	13,279	12,490	375,588	322,561
Occupancy	652,653	395,116	277,077	344,467	38,448	1,707,761	1,664,244	186,767	6,643	25,184	218,594	164,643
Professional fees	76,446	47,868	13,399	452,982	67,229	657,924	436,757	109,064	168	25,112	134,344	133,661
Transportation	222,293	90,356	143,915	78,580	1,250	536,394	487,600	49,160	957	7,501	57,618	57,934
Supplies	183,541	184,534	151,118	199,423	50,024	768,640	641,132	272,169	3,623	21,751	297,543	277,448
Equipment rental	13,456	56,179	28,315	43,154	13,699	154,803	121,176	35,973	2,241	-	38,214	31,111
Depreciation	331,405	295,824	243,032	137,396	24,696	1,032,353	813,274	126,915	3,711	2,944	133,570	150,818
Donated facilities	-	-	-	-	-	-	23,349	-	-	-	-	-
Other expenses	265,890	206,265	52,171	265,887	88,667	878,880	473,382	271,275	5,185	30,942	307,402	233,233
Total expenses	$ 6,665,884	$ 4,002,021	$ 2,610,360	$ 5,638,701	$ 1,192,366	$ 20,109,332	$ 18,189,834	$ 3,138,180	$ 113,461	$ 192,332	$ 3,443,973	$ 2,996,255

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, 2010
(with summarized comparative totals for the year ended June 30, 2009)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 523,665	$ 1,814,146
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Amortization of bond issuance costs	34,526	-
Net unrealized (gains) losses on investments	(12,667)	22,373
Unrealized loss on derivative financial instruments	525,110	-
Net losses from investments in affiliates	80,682	-
Depreciation	1,165,914	964,132
Donated property	(233,000)	(758,894)
Contribution revenue - Forgiveness of debt	-	(175,951)
Gain on disposition of property	(21,800)	(36,591)
Increase (decrease) in allowance for doubtful accounts	14,771	(29,848)
Net effect of acquisition of Advocates for the Disabled	(200,886)	-
(Increase) decrease in		
Accounts receivable	(20,125)	109,129
Due from related parties	(17,363)	-
Contributions receivable, net	149,444	53,011
Prepaid expenses and other	284,596	(230,183)
Deposits	63,379	477,738
Increase in		
Accounts payable	77,854	177,277
Accrued liabilities	564,536	115,764
Deferred revenue	37,592	-
Net cash provided by operating activities	3,016,228	2,502,103
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash obtained through acquisition of Advocates for the Disabled	195,094	-
Purchases of investments	(65,500)	(60,001)
Proceeds from conversion of assets restricted to investment in property	-	12,503
Proceeds from disposition of property	21,800	41,700
Purchases of property	(1,389,338)	(5,805,598)
Advances to FCS Premier	(133,678)	-
Investments in affiliates	(168,165)	-
Net cash used in investing activities	(1,539,787)	(5,811,396)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings on notes payable	75,000	3,950,421
Payments on notes payable	(6,815,875)	(308,742)
Payment of bond issuance costs	(375,867)	-
Proceeds from issuance of bond payable	7,500,000	-
Payments on bond payable	(132,640)	-
Net cash provided by financing activities	250,618	3,641,679
Net increase in cash and cash equivalents	1,727,059	332,386
CASH AND CASH EQUIVALENTS - Beginning of year	4,309,475	3,977,089
CASH AND CASH EQUIVALENTS - End of year	$ 6,036,534	$ 4,309,475

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. During the year ended June 30, 2010, Marc Center acquired Advocates for the Disabled, Inc. ("Advocates") by an action by the Board of Directors of Advocates granting Marc Center the sole power to appoint directors to the Advocates' Board. At the acquisition date, Advocates had total assets of $849,659, total liabilities of $886,287, and a net deficit of $36,628, which was made up of $5,792 of beginning net deficit and a decrease in net assets through the acquisition date of $30,836. Advocates' programs have been integrated into Marc Center's programs. The acquisition of Advocates has been accounted for in a manner similar to the pooling of interests method.

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, TecMarc expanded into property management services. TecMarc has 1,000 shares of authorized common stock, all of which have been issued to Marc Center.

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. During the year ended June 30, 2010, the Foundation transferred substantially all of its property to Marc Center to facilitate the completion of bond financing (Note 10). The net book value of the transferred property was approximately $594,000.

The Village at Oasis Park – Phase I, Inc. (the "Village") is a nonprofit corporation and was incorporated in the state of Arizona in October 2009 to provide housing for seniors who have disabled children. The Village's Board of Directors consists of the Executive Committee of Marc Center and other individuals selected by the Executive Committee of Marc Center.

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

Prior Year Summarized Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class or by function. In addition, the prior year summarized comparative information does not include the financial statements of Advocates. 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 consolidated financial statements for the year ended June 30, 2009 from which the summarized information was derived, and in conjunction with Advocates financial statements for the year ended June 30, 2009.

Accounting Standards Codification

On July 1, 2009, the Organization adopted the authoritative guidance issued by the FASB that the Accounting Standards Codification ("ASC") be recognized as the source of authoritative U.S. generally accepted accounting principles ("U.S. GAAP"). The Codification did not change U.S. GAAP, but instead introduced a new structure that combines all authoritative standards into a comprehensive, topically organized, single source of authoritative GAAP. Adoption of the new guidance did not have a material impact on the Organization's consolidated financial statements.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Marc Center, Advocates, TecMarc, the Foundation, and the Village (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 FASB ASC 958, under which 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.

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.

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

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 $46,000 and $83,000 at June 30, 2010 and 2009, 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:

	2010	2009
Allowance for doubtful accounts, beginning of year	$ 87,836	$ 117,684
Provision for realization losses	60,952	18,934
Write-offs	(46,181)	(48,782)
Allowance for doubtful accounts, end of year	$ 102,607	$ 87,836

Investments

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, 2010 and 2009 totaled approximately $196,000 and $118,000, respectively, all of which were invested in mutual funds. Net unrealized gains for the year ended June 30, 2010 totaled approximately $13,000. Net unrealized losses for the year ended June 30, 2009 totaled approximately $22,000.

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

Investments in Affiliates

Partners In Recovery, LLC

During the year ended June 30, 2009, Marc Center entered into an investment in Partners in Recovery, LLC ("PIR"), a newly formed Arizona limited liability company, in order to provide behavioral health services. PIR is one of four Provider Network Organizations ("PNO") that are contracted with Magellan Health Services of Arizona, Inc. ("Magellan") to provide behavioral health services to adults in Maricopa County. Magellan is the Regional Behavioral Health Authority ("RBHA") contracted by the Arizona Department of Health Services for Maricopa County. Marc Center has a 50% membership interest in PIR. While Marc Center does not have control of PIR, it does have the ability to exercise significant influence over PIR and has an ongoing economic interest in the net assets of PIR. Accordingly, the Organization reports Marc Center's interest in the net assets of PIR, as well as any change in the net assets of PIR, in a manner similar to the equity method of accounting for investments in common stock.

Marc Center's investment in PIR at June 30, 2010 was approximately $194,000, which includes Marc Center's original investment of approximately $105,000 plus Marc Center's share of PIR's increase in net assets of approximately $89,000 for the year ended June 30, 2010.

FCS Premier, LLC

During the year ended June 30, 2010, Marc Center entered into an investment in FCS Premier, LLC ("FCS Premier"), a newly formed Arizona limited liability company, in order to provide food services training opportunities for people with disabilities at a corporate office building. Marc Center has a 50% membership interest in FCS Premier. While Marc Center does not have control of FCS Premier, it does have the ability to exercise significant influence over FCS Premier and has an ongoing economic interest in the net assets of FCS Premier. Accordingly, the Organization reports Marc Center's interest in the net assets of FCS Premier, as well as any changes in the net assets of FCS Premier, in a manner similar to the equity method of accounting for investments in common stock.

Marc Center's share of FCS Premier's decrease in net assets of approximately $174,000 for the year ended June 30, 2010 reduced Marc Center's original investment of $50,000 to zero. The remaining decrease in net assets of approximately $124,000 reduced a due from related party balance, leaving an amount due from FCS Premier of approximately $10,000 at June 30, 2010.

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

Summarized financial statement information of PIR and FCS Premier as of and for the year ended June 30, 2010 is as follows:

	PIR (Audited)	FCS Premier (Unaudited)
Statements of financial position		
Total assets	$ 1,577,946	$ 413,681
Total liabilities	$ 1,189,086	$ 660,764
Unrestricted net assets	388,860	(247,083)
Total liabilities and unrestricted net assets	$ 1,577,946	$ 413,681
Statements of activities		
Revenue	$ 18,613,061	$ 214,165
Expenses		
Program services	17,688,005	538,798
Supporting activities	748,026	22,450
Total expenses	18,436,031	561,248
Change in unrestricted net assets	177,030	(347,083)
Marc Center's ownership percentage	50%	50%
Marc Center's share of change in net assets	$ 88,515	$ (173,541)

BuildMarc, LLC

During the year ended June 30, 2010, TecMarc entered into an investment in BuildMarc, LLC (“BuildMarc”), in order to provide construction services and jobs for people with disabilities. TecMarc has a 49% membership interest in BuildMarc. While TecMarc does not have control of BuildMarc, it does have the ability to exercise significant influence over BuildMarc and has an ongoing economic interest in the members’ equity of BuildMarc. Accordingly, the Organization reports TecMarc’s interest in the members’ equity of BuildMarc, as well as any changes in the members’ equity of BuildMarc, in a manner similar to the equity method of accounting for investments in common stock.

TecMarc’s investment in BuildMarc at June 30, 2010 was approximately $17,000, which includes TecMarc’s original investment in BuildMarc of approximately $13,000 plus TecMarc’s share of BuildMarc’s net income of approximately $4,000 for the year ended June 30, 2010.

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

Summarized financial statement information of BuildMarc as of and for the year ended June 30, 2010 is as follows:

	BuildMarc (Unaudited)
Balance sheet	
Total assets	$ 171,345
Total liabilities	$ 137,479
Equity	33,866
Total liabilities and equity	$ 171,345
Statement of operations	
Net sales	$ 219,864
Cost of sales	210,267
Gross profit	9,597
Operating expenses and other	731
Net income	8,866
TecMarc's ownership percentage	49%
TecMarc's share of net income	$ 4,344

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.

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

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.

Donated Facilities

Until the year ended June 30, 2009, the Organization leased certain facilities 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 2008, the property for the main campus 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, 2010 and 2009. In November 2008, 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. For the year ended June 30, 2010, the City of Mesa transferred to the Organization two residential properties (Note 5). Accordingly, no amounts have been reflected as donated facilities for the fair rental value of these properties.

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

Income Taxes

Marc Center, Advocates, the Foundation, and the Village are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. PIR and FCS Premier, in which Marc Center has ownership interests, have each submitted an application to the Internal Revenue Service ("IRS") for exempt status under Section 501(c)(3) of the Internal Revenue Code. Management of PIR and FCS Premier anticipate approval of those applications in the normal course. Accordingly, no liability or provision for federal or state income taxes of these entities is reflected in the accompanying consolidated financial statements.

TecMarc is not exempt from income taxes and any income is subject to taxation. BuildMarc in which TecMarc has an ownership interest, is also subject to taxation. For the year ended June 30, 2010 and 2009, TecMarc did not have taxable income.

Certain provisions of FASB ASC 740 *Income Taxes* that provide guidance on uncertainty in income taxes became effective for the Organization during the year ended June 30, 2010. The adoption of that guidance did not have a material effect on the Organization. Under that guidance, uncertain tax positions are accounted for based on whether it is "more-likely-than-not" that the position will be upheld by the taxing authority upon examination. The Organization has identified the tax exempt status of certain entities in this consolidated financial statement as a tax position. However, the Organization has determined that this tax position does not result in an uncertainty that requires recognition in the consolidated financial statements.

The entities in these consolidated financial statements file income tax returns in the U.S. federal jurisdiction and in the state of Arizona. Federal tax returns are subject to examination generally three years after they have been filed and state tax returns are subject to examination generally four years after they have been filed. The Organization has not yet filed a tax return for the year ended June 30, 2010 and will be filing pending the applications described above.

Interest and penalties, if any, are accrued as a component of management and general expenses when assessed. As of June 30, 2010, the Organization has not accrued interest or penalties related to uncertain tax positions.

(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 consolidated 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:

	2010	2009
Receivable in less than one year	$ 411,285	$ 419,520
Receivable in one to five years	118,675	276,650
Total contributions receivable	529,960	696,170
Less - Unamortized discount	(18,972)	(35,738)
Subtotal	510,988	660,432
Less - Allowance for uncollectible contributions	(150,000)	(150,000)
Total contributions receivable, net	$ 360,988	$ 510,432

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 RBHA contracted for Maricopa County 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. Once all conditions have been met, the Organization will recognize the fair value of the property in the consolidated financial statements.

(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 Magellan, the Organization provides services to the tenants of the building. Once all conditions have been met, the Organization will recognize the fair value of the property in the consolidated financial statements.

(5) PROPERTY

Property consisted of the following at June 30:

	2010	2009
Land	$ 4,257,671	$ 4,136,712
Buildings	17,143,236	14,951,689
Leasehold improvements	489,851	1,004,125
Vehicles	1,674,390	1,690,287
Furniture and equipment	1,048,603	782,613
Construction in progress	401,278	1,019,171
Total property	25,015,029	23,584,597
Less - Accumulated depreciation	(5,154,009)	(4,180,001)
Property, net	$ 19,861,020	$ 19,404,596

Depreciation expense for the years ended June 30, 2010 and 2009 totaled approximately $1,166,000 and $964,000, respectively, of which approximately $27,000 and $103,000, respectively, represents depreciation expense from the Foundation and TecMarc.

(5) PROPERTY (continued)

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 did not accrue interest and the Organization was not required to make any payments. Since the Organization believed that the probability of triggering any payments on this note was highly remote, the $1,600,000 has not been recorded as a liability in the consolidated statement of financial position. Rather, the $1,160,000 estimated fair value of the property was recorded as temporarily restricted contribution revenue for the year ended June 30, 2008. During the year ended June 30, 2010, the City of Mesa released the restrictions in connection with the bond issuance (Note 10), and the $1,160,000 was released from restrictions.

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.

In June 2010, the City of Mesa transferred title to two residential properties to the Organization. Approximately $233,000 of contribution revenue was recognized by the Organization during the year ended June 30, 2010 related to the transfer of these properties. The transfer agreements stipulate that the properties must be used as affordable rental housing for twenty years from the date of the transfers.

(6) BOND ISSUANCE COSTS

Bond issuance costs consist of legal costs, underwriting fees, printing costs and other costs incurred to obtain, secure and rate the bond described in Note 10. These issuance costs totaled approximately $376,000 and are being amortized over the 10-year term of the bond using the straight-line method (which approximates the effective interest method). Accumulated amortization on the bond issuance costs was approximately $35,000 at June 30, 2010 and is included in interest expense.

(7) NOTE PAYABLE - BANK LINE OF CREDIT

The Organization has a $750,000 revolving line of credit with a bank which bears interest at LIBOR (1.20406% at June 30, 2010) plus 3.25% with a 4% floor. The balance outstanding cannot exceed the balance of outstanding receivables (as defined). This line of credit is secured primarily by receivables and furniture and equipment of the Organization and expired in August 2010. The line of credit was then renewed through September 2011 with interest on any outstanding balance at the bank's prime rate plus 0.75% with a 4% floor. There was no activity on this line of credit during the year ended June 30, 2010.

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, 2010, the Organization was in compliance with these requirements.

(8) DERIVATIVE FINANCIAL INSTRUMENT: INTEREST RATE SWAP

In July 2009, the Organization entered into an interest rate swap agreement that effectively converted approximately $7,500,000 of the Organization's LIBOR-based variable-rate debt to a fixed rate. The counterparty to the swap agreement is the bank (a major U.S. financial institution) that holds the Organization's LIBOR-based variable-rate bond payable. Under the swap agreement, the Organization pays interest at a fixed rate of 4.8% and, in return, receives interest at a variable rate based on the one-month LIBOR rate plus a margin of 2.125%. The net effect of the swap is to fix the interest rate on $7,500,000 of the Organization's LIBOR-based variable-rate bond payable at 4.8%.

The interest rate swap agreement qualifies as a cash flow hedge, and accordingly, the fair value of the interest rate swap agreement, which is adjusted regularly, is recorded in the Organization's consolidated statement of financial position as an asset or liability, as necessary, with a corresponding adjustment to other charges. The fair value of the Organization's interest rate swap at June 30, 2010 was a liability totaling approximately $525,000. The unrealized holding loss on this interest rate swap was approximately $525,000 for the year ended June 30, 2010.

(9) NOTES PAYABLE

	2010	2009
Notes payable to banks and finance companies; due in monthly installments totaling approximately $8,000, including interest ranging from 5.90% to 8.25%, with a weighted average interest rate of 7.20%; maturing through June 2013; collateralized by vehicles and equipment.	$ 156,216	$ 261,074

(9) NOTES PAYABLE (continued)

	2010	2009
Note payable to a finance company; due in monthly installments of approximately $4,000, including interest at approximately 6.4%; final payment in June 2013; collateralized by software and equipment.	129,002	167,756
Note payable to the Arizona Community Foundation; principal balance due at maturity with no interest accrued; maturing in December 2010.	75,000	-
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; paid in full with proceeds from the July 2009 bond issuance (Note 10).	-	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%; paid in full with proceeds from the July 2009 bond issuance (Note 10).	-	1,008,609
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%; paid in full with proceeds from the July 2009 bond issuance (Note 10).	-	917,221

(9) NOTES PAYABLE (continued)

	2010	2009
Note payable to a bank to facilitate construction; interest only payments due monthly at prime (3.25% at June 30, 2010); paid in full with proceeds from the July 2009 bond issuance (Note 10).	-	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%; paid in full with proceeds from the July 2009 bond issuance (Note 10).	-	643,918
Notes payable to a bank; due in monthly installments of approximately $1,500 including interest at 6.50%; paid in full with proceeds from the July 2009 bond issuance (Note 10).	-	208,665
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%, paid in full with proceeds from the July 2009 bond issuance (Note 10).	-	201,874
Note payable to a bank; due in monthly principal payments of approximately $500; interest accrues at LIBOR, as defined, plus 2.41%; paid in full with proceeds from the July 2009 bond issuance (Note 10).	-	123,025
Total notes payable	$ 360,218	$ 7,101,093

(9) NOTES PAYABLE (continued)

Annual principal payments on notes payable are scheduled as follows:

Year Ending June 30	
2011	$ 186,817
2012	104,558
2013	68,843
Total notes payable	$ 360,218

Interest expense for the years ended June 30, 2010 and 2009 totaled approximately $385,000 and $258,000, respectively, of which approximately $5,000 and $58,000 represents interest expense from the Foundation for the years ended June 30, 2010 and 2009, respectively. Approximately $34,000 and $24,000 of interest expense was capitalized during the years ended June 30, 2010 and 2009, respectively. In addition, approximately $35,000 of interest expense for the year ended June 30, 2010 was amortization on the bond issuance costs (Note 6).

(10) BOND PAYABLE

In July 2009, the Organization entered into loan agreements with the Industrial Development Authority of the County of Maricopa to issue Community Services Facilities Revenue Bonds, Series 2009A ("Series 2009A") in the amount of $7,500,000 for a term of ten years, and to issue Community Services Facilities Revenue Bonds, Series 2009B ("Series 2009B") in the amount of $1,620,929 for a term of eleven years and six months. Series 2009A and Series 2009B (collectively "the Bonds") are collateralized by certain real property as set forth in the agreements. The Organization borrowed the full amount of $7,500,000 under Series 2009A, and approximately $7,367,000 was outstanding at June 30, 2010. As of June 30, 2010, no amounts had been borrowed under Series 2009B.

Interest on the Bonds is payable monthly under variable interest rate provisions. Series 2009A is due in monthly principal amounts of approximately $13,000 to $20,000 with a final balloon payment in July 2019. Series 2009A bears interest at 65% of the one month LIBOR (0.35125 at June 30, 2010) plus 2.125%. Series 2009A is subject to an interest rate swap agreement (Note 8). Series 2009B bears interest at an annual floating rate equal to the sum of 65% of the prime rate (3.25% at June 30, 2010) plus .65%, but not less than 3.90% annually.

(10) BOND PAYABLE (continued)

Annual principal payments on the bond payable are scheduled as follows:

Year Ending June 30	
2011	$ 166,329
2012	174,493
2013	183,052
2014	192,040
2015	201,460
Thereafter	6,449,986
Total bond payable	$ 7,367,360

The Organization is required to maintain certain net asset, liquidity, and indebtedness ratios, and must comply with other general covenants of the Loan Agreement. As of June 30, 2010, the Organization was in compliance with those requirements.

(11) RESTRICTED NET ASSETS

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

	2010	2009
Restrictions on donated property (Note 5)	$ 502,514	$ 1,429,514
Time restrictions on contributions receivable	107,425	200,120
Other	28,774	28,620
Total temporarily restricted net assets	$ 638,713	$ 1,658,254

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

(12) CAPITAL CAMPAIGNS

Administrative and Day Services Program Building

Contributions receivable at June 30, 2010 included two promises to give related to the administrative and day services program building capital campaign totaling approximately $148,000 (net of unamortized discount on long-term promises to give totaling approximately $13,000).

(12) CAPITAL CAMPAIGNS (continued)

Employment Building

Contributions receivable at June 30, 2010 included one promise to give related to the employment building of approximately $234,000 (net of unamortized discount on long-term promises to give of approximately $6,000).

(13) CASH FLOW INFORMATION

Supplemental Disclosure of Cash Flow Information

Cash paid for interest was approximately $388,000 and $282,000, of which approximately $34,000 and $24,000 was capitalized for the years ended June 30, 2010 and 2009, 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).

(14) COMMITMENTS

The Organization leases office space, residential houses, and vehicles and equipment under various non-cancelable operating leases that expire at various dates through January 2030. Several leases have renewal options. The Organization also leases residential houses and equipment under various month-to-month leases.

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	
2011	$ 456,138
2012	333,308
2013	207,648
2014	103,301
2015	73,496
Thereafter	257,200
Total future minimum lease payments	$ 1,431,091

(14) COMMITMENTS (continued)

Rent expense for the years ended June 30, 2010 and 2009 totaled approximately $745,000 and $591,000, respectively, not including the fair rental value of donated facilities (see Note 1) of approximately $0 and $23,000, respectively, and net of approximately $137,000 of sublease rental income for the year ended June 30, 2010. The sublease does not continue beyond June 30, 2010.

(15) CONCENTRATIONS

Revenue

The Organization received significant portions of its total revenue for the years ended June 30, 2010 and 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 Magellan makes up approximately 93% and 92% 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, 2010 and 2009, respectively.

The percentages of total revenue and the amounts 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:

	2010		2009	
	Total Revenue	Accounts Receivable	Total Revenue	Accounts Receivable
DES	40%	$ 855,516	45%	$ 888,483
ADHS	51%	76,325	45%	176,624
Total	91%	$ 931,841	90%	$ 1,065,107

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, 2010, the Organization's uninsured balance was approximately $5,897,000.

(16) 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 $48,000 and $183,000 for the years ended June 30, 2010 and 2009, respectively. Due to uncertainties in state funding, the Organization stopped matching contributions in October 2009. However, the Organization continued to accrue matching contributions of approximately $114,000, which is included in accrued liabilities in the consolidated statement of financial position, in anticipation of making the contributions when economically feasible.

The Organization also has a non-qualified deferred compensation plan (the "Non-Qualified 457b 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 457b Plan by the Organization were approximately $68,000 and $65,000 for the years ended June 30, 2010 and 2009, respectively, all of which was included in accrued liabilities at June 30, 2010 and 2009.

In May 2010, after the completion of an independent executive compensation wage study, the Organization established a second non-qualified deferred compensation retirement plan (the "Non-Qualified 457f Plan") covering the current President and CEO (the "Participant"). Under the terms of the Non-Qualified 457f Plan, the Organization will distribute pre-defined post-retirement payments to the Participant over a 15-year period based on a 5-year vesting schedule beginning March 31, 2009. On June 30, 2010, the present value of the vested post retirement benefits was $78,000 and this liability is included in accrued liabilities in the consolidated statement of financial position. While the Organization has set aside $78,000 in a separate account, these funds remain available to general creditors of the Organization.

(17) RELATED PARTY TRANSACTIONS

Contributions from members of the Board of Directors and employees totaled approximately $2,000 and $1,000 for the years ended June 30, 2010 and 2009, respectively. Included in contributions receivable at June 30, 2010 and 2009 was approximately $4,000 and $5,000, respectively, from members of the Board of Directors and employees.

During the year ended June 30, 2010, Marc Center received construction services from BuildMarc in the amount of approximately $122,000, all of which was included in accounts payable at June 30, 2010.

During the year ended June 30, 2010, Marc Center charged management fees of approximately $158,000 to PIR for management and accounting services, of which approximately $17,000 was in accounts receivable at June 30, 2010.

(18) 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.

(19) FAIR VALUE MEASUREMENTS

FASB ASC 820 provides the 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 under FASB ASC 820 are described 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.

(19) FAIR VALUE MEASUREMENTS (continued)

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

Investments

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

Derivative financial instrument

The Organization's derivative financial instrument described in Note 8 is recorded at fair value, which has been calculated based primarily on observable interest rates and yield curves for the terms of the swap.

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 tables set forth by level, within the fair value hierarchy, the Organization's assets that are measured at fair value as of June 30:

	2010			
	Level 1	Level 2	Level 3	Total
Investments	$ 196,015	$ -	$ -	$ 196,015
Derivative financial instrument	-	525,110	-	525,110
Total assets at fair value	$ 196,015	$ 525,110	$ -	$ 721,125

	2009			
	Level 1	Level 2	Level 3	Total
Investments	$ 117,848	$ -	$ -	$ 117,848

(20) SUBSEQUENT EVENTS

Subsequent events were evaluated by management through October 29, 2010, the date on which the consolidated financial statements were available to be issued. There were no events or transactions occurring after June 30, 2010, but prior to October 29, 2010, that provided additional evidence about conditions that existed at June 30, 2010.