

MARC CENTER OF MESA, INC.
FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

June 30, 2007

MARC CENTER OF MESA, INC.

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Schmidt Westergard

& COMPANY, PLLC

"STRENGTH THROUGH NUMBERS"

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Marc Center of Mesa, Inc. (a nonprofit organization) as of June 30, 2007, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2006 financial statements and, in our report dated August 31, 2006, we expressed an unqualified opinion on those 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 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 financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marc Center of Mesa, Inc. as of June 30, 2007, 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
October 18, 2007

MARC CENTER OF MESA, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2007
(with summarized comparative totals as of June 30, 2006)

| | 2007 | 2006 |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 4,224,209 | \$ 4,580,857 |
| Consumer trust funds | 31,658 | 35,985 |
| Accounts receivable, net | 1,386,965 | 1,064,314 |
| Contributions receivable, net | 640,491 | 898,352 |
| Prepaid expenses and other | 124,198 | 21,458 |
| Investments | 89,887 | - |
| Cash restricted to investment in property | 1,148,687 | 517,518 |
| Property, net | 7,533,838 | 5,478,769 |
| Deposits | 108,753 | 76,592 |
| TOTAL ASSETS | \$ 15,288,686 | \$ 12,673,845 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Consumer trust funds | \$ 31,658 | \$ 35,985 |
| Accounts payable | 403,093 | 369,046 |
| Accrued liabilities | 951,260 | 865,016 |
| Notes payable | 1,811,067 | 821,005 |
| Total liabilities | 3,197,078 | 2,091,052 |
| NET ASSETS | | |
| Unrestricted | 9,649,463 | 8,597,656 |
| Temporarily restricted | 2,442,145 | 1,985,137 |
| Total net assets | 12,091,608 | 10,582,793 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 15,288,686 | \$ 12,673,845 |

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

MARC CENTER OF MESA, INC.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007
(with summarized comparative totals for the year ended June 30, 2006)

| | Unrestricted | Temporarily Restricted | Totals | |
|---|---------------|---------------------------|---------------|---------------|
| | | | 2007 | 2006 |
| REVENUE AND GAINS (LOSSES) | | | | |
| Governmental | | | | |
| Arizona Department of Economic Security | \$ 10,299,057 | \$ - | \$ 10,299,057 | \$ 9,588,071 |
| Arizona Department of Health Services | 8,668,615 | - | 8,668,615 | 8,059,991 |
| City of Mesa | 15,799 | - | 15,799 | 17,500 |
| Total governmental revenue | 18,983,471 | - | 18,983,471 | 17,665,562 |
| Other | | | | |
| Service contracts | 420,422 | - | 420,422 | 468,778 |
| Service fees | 81,496 | - | 81,496 | 83,656 |
| United Way contributions | - | 147,567 | 147,567 | 147,945 |
| Other contributions | 154,610 | 564,096 | 718,706 | 1,055,756 |
| Interest income | 198,473 | - | 198,473 | 116,298 |
| Net unrealized gains on investments | 2,387 | - | 2,387 | - |
| Gain (loss) on disposition of property | 3,563 | - | 3,563 | (54,216) |
| Donated facilities | 781,680 | - | 781,680 | 776,590 |
| Other | 79,975 | - | 79,975 | 50,355 |
| Total other revenue and gains (losses) | 1,722,606 | 711,663 | 2,434,269 | 2,645,162 |
| Total revenue and gains (losses) | 20,706,077 | 711,663 | 21,417,740 | 20,310,724 |
| Net assets released from restrictions | | | | |
| Restrictions satisfied by the passage of time | 254,655 | (254,655) | - | - |
| EXPENSES | | | | |
| Program services | | | | |
| Residential | 6,804,619 | - | 6,804,619 | 6,393,181 |
| Employment services | 2,988,332 | - | 2,988,332 | 2,980,451 |
| Day services | 2,446,527 | - | 2,446,527 | 1,804,521 |
| Children | 313,429 | - | 313,429 | 300,224 |
| Home services | 3,117,811 | - | 3,117,811 | 2,887,043 |
| Outpatient clinic | 1,191,189 | - | 1,191,189 | 885,527 |
| Total program services | 16,861,907 | - | 16,861,907 | 15,250,947 |
| Supporting activities | | | | |
| Management and general | 2,886,741 | - | 2,886,741 | 2,731,623 |
| Fundraising | 160,277 | - | 160,277 | 149,146 |
| Total supporting activities | 3,047,018 | - | 3,047,018 | 2,880,769 |
| Total expenses | 19,908,925 | - | 19,908,925 | 18,131,716 |
| CHANGE IN NET ASSETS | 1,051,807 | 457,008 | 1,508,815 | 2,179,008 |
| NET ASSETS – Beginning of year | 8,597,656 | 1,985,137 | 10,582,793 | 8,403,785 |
| NET ASSETS – End of year | \$ 9,649,463 | \$ 2,442,145 | \$ 12,091,608 | \$ 10,582,793 |

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

MARC CENTER OF MESA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2007
(with summarized comparative totals for the year ended June 30, 2006)

| | Program Services | | | | | | Supporting Activities | | | | | |
|---------------------------|---------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-----------------------|----------------------|---------------------------|-------------------|---------------------|---------------------|
| | Residential | Employment | Day | Children | Home | Outpatient | Totals | | Management and General | Fundraising | Totals | |
| | | Services | Services | | Services | Clinic | 2007 | 2006 | | | 2007 | 2006 |
| Salaries | \$ 4,212,186 | \$ 1,801,719 | \$ 1,264,468 | \$ 173,710 | \$ 2,048,417 | \$ 803,002 | \$ 10,303,502 | \$ 9,248,432 | \$ 1,401,644 | \$ 68,525 | \$ 1,470,169 | \$ 1,331,785 |
| Employee-related expenses | 778,232 | 350,980 | 244,864 | 36,031 | 346,322 | 138,508 | 1,894,937 | 1,798,928 | 232,452 | 16,696 | 249,148 | 241,486 |
| Occupancy | 1,005,452 | 313,585 | 266,122 | 20,922 | 100,938 | 78,262 | 1,785,281 | 1,527,315 | 140,822 | 7,445 | 148,267 | 109,971 |
| Professional fees | 51,506 | 49,223 | 5,342 | 44,605 | 317,197 | 38,838 | 506,711 | 389,328 | 83,816 | 20,076 | 103,892 | 76,381 |
| Transportation | 253,277 | 83,195 | 139,645 | 14,397 | 58,380 | 4,053 | 552,947 | 587,843 | 48,730 | 2,460 | 51,190 | 54,470 |
| Supplies | 166,047 | 141,679 | 100,894 | 4,108 | 41,491 | 45,033 | 499,252 | 432,212 | 204,677 | 10,089 | 214,766 | 206,399 |
| Equipment rental | 14,108 | 41,498 | 20,555 | 2,893 | 12,196 | 13,389 | 104,639 | 101,269 | 36,174 | 3,045 | 39,219 | 36,231 |
| Depreciation | 130,988 | 79,627 | 145,672 | 2,687 | 37,897 | 22,015 | 418,886 | 396,641 | 148,859 | 10,046 | 158,905 | 156,106 |
| Donated facilities | 112,265 | 61,680 | 180,000 | 9,000 | 109,088 | 3,647 | 475,680 | 487,590 | 291,573 | 14,427 | 306,000 | 289,000 |
| Other expenses | 80,558 | 65,146 | 78,965 | 5,076 | 45,885 | 44,442 | 320,072 | 281,389 | 297,994 | 7,468 | 305,462 | 378,940 |
| Total expenses | \$ 6,804,619 | \$ 2,988,332 | \$ 2,446,527 | \$ 313,429 | \$ 3,117,811 | \$ 1,191,189 | \$ 16,861,907 | \$ 15,250,947 | \$ 2,886,741 | \$ 160,277 | \$ 3,047,018 | \$ 2,880,769 |

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

MARC CENTER OF MESA, INC.
STATEMENT OF CASH FLOWS
For the year ended June 30, 2007
(with summarized comparative totals for the year ended June 30, 2006)

| | 2007 | 2006 |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 1,508,815 | \$ 2,179,008 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Net unrealized gains on investments | (2,387) | - |
| Depreciation | 577,791 | 552,747 |
| Donated property | (106,710) | (288,854) |
| Loss (gain) on disposition of property | (3,563) | 54,216 |
| Contributions restricted to investment in property | (631,169) | (404,628) |
| Increase (decrease) in allowance for doubtful accounts | (3,980) | 45,646 |
| (Increase) decrease in | | |
| Accounts receivable | (318,671) | (26,240) |
| Pledges receivable | 257,861 | (2,438) |
| Prepaid expenses and other | (102,740) | (6,627) |
| Deposits | (32,161) | (48,139) |
| Increase (decrease) in | | |
| Accounts payable | 34,047 | 131,059 |
| Accrued liabilities | 86,244 | (20,412) |
| Net cash provided by operating activities | 1,263,377 | 2,165,338 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (87,500) | - |
| Purchase of assets restricted to investment in property | (631,169) | (404,628) |
| Proceeds from sale of property | 29,000 | 28,355 |
| Purchases of property | (2,551,587) | (789,154) |
| Net cash used in investing activities | (3,241,256) | (1,165,427) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions restricted to investment in property | 631,169 | 404,628 |
| Payments on notes payable | (283,169) | (240,907) |
| Proceeds from borrowings on notes payable | 1,273,231 | 164,820 |
| Net cash provided by financing activities | 1,621,231 | 328,541 |
| Net increase (decrease) in cash and cash equivalents | (356,648) | 1,328,452 |
| CASH AND CASH EQUIVALENTS - Beginning of year | 4,580,857 | 3,252,405 |
| CASH AND CASH EQUIVALENTS - End of year | \$ 4,224,209 | \$ 4,580,857 |

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

MARC CENTER OF MESA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(with summarized comparative totals as of June 30, 2006)

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Marc Center of Mesa, Inc. 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 of Mesa, Inc. (the "Organization") provides services throughout Maricopa County, Arizona.

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, 2006 from which the summarized information was derived.

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 \$157,000 and \$79,000 as of June 30, 2007 and 2006, respectively. The Organization does not require collateral on accounts receivable balances and does not generally charge interest on past due balances.

MARC CENTER OF MESA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(with summarized comparative totals as of June 30, 2006)

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

Accounts Receivable (continued)

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

| | 2007 | 2006 |
|--|-----------|-----------|
| Allowance for doubtful accounts, beginning of year | \$ 93,714 | \$ 48,068 |
| Provision for realization losses | 37,339 | 127,885 |
| Write-offs | (41,319) | (82,239) |
| Allowance for doubtful accounts, end of year | \$ 89,734 | \$ 93,714 |

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, 2007 totaled approximately \$90,000, all of which was invested in mutual funds. Net unrealized gains for the year ended June 30, 2007 totaled approximately \$2,000.

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 long gifts of long-lived 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.

MARC CENTER OF MESA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(with summarized comparative totals as of June 30, 2006)

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

Contributions

Contributions of cash or other assets are recognized as revenue when received. 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 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

The Organization leases its administrative offices from the City of Mesa. The lease requires an annual payment of \$1 and terminates in October 2029, with renewal options for two five-year periods and annual payments of \$1. The lease requires that the facilities be used to provide services to persons with disabilities and allows for improvements to be made with approval from the City of Mesa. The estimated fair rental value of this property was approximately \$782,000 and \$777,000 for the years ended June 30, 2007 and 2006, respectively, and has been reflected in other revenue as donated facilities. A corresponding amount has been reflected as an expense in the accompanying financial statements. Subsequent to June 30, 2007, the City of Mesa was in the process of transferring title of this property to the Organization, as further described in Note 16.

Income Taxes

The Organization is 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 financial statements.

MARC CENTER OF MESA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(with summarized comparative totals as of June 30, 2006)

(2) ACCOUNTING ESTIMATES

The preparation of 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:

| | <u>2007</u> | <u>2006</u> |
|--|--------------------------|--------------------------|
| Receivable in less than one year | \$ 355,752 | \$ 497,695 |
| Receivable in one to five years | 402,900 | 593,900 |
| Receivable in more than five years | <u>90,000</u> | <u>48,750</u> |
| Total contributions receivable | 848,652 | 1,140,345 |
| Less - Unamortized discount | <u>(58,161)</u> | <u>(91,993)</u> |
| Subtotal | 790,491 | 1,048,352 |
| Less - Allowance for uncollectible pledges | <u>(150,000)</u> | <u>(150,000)</u> |
| Total contributions receivable, net | <u><u>\$ 640,491</u></u> | <u><u>\$ 898,352</u></u> |

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 (the Regional Behavioral Health Agency contracted by the Arizona Department of Health Services for Maricopa County, Arizona). Under the agreements, unrestricted title to two single-family residences in 2007 and one single-family residence in 2006 will be transferred to the Organization if certain conditions are met. The estimated values of the properties associated with these agreements were \$600,000 and \$300,000 at June 30, 2007 and 2006, respectively. The condition for the transfer of title is that the Organization functions as landlord of the residence 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 residence.

MARC CENTER OF MESA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(with summarized comparative totals as of June 30, 2006)

(4) CONDITIONAL PROMISES TO GIVE (continued)

During the year ended June 30, 2005, the Organization received a grant from Rehabilitation Services Administration (a division of the Arizona Department of Economic Security) to subsidize the expenses associated with creating a document imaging operation to provide job training for disabled consumers. Based on the grant and the intent of the parties, the Organization has classified this grant as a conditional promise to give. The grant provides for future reimbursement of qualifying personnel expenses incurred in the years ending June 30, 2005, 2006, 2007 and 2008, not to exceed \$252,000, \$114,000, \$91,000 and \$68,000, respectively. The provisions of the grant create a donor-imposed condition that the expense must first be incurred and then the expense will be reimbursed. Therefore, as future qualifying expenses are incurred, the contribution revenue will be recognized. Contribution revenue includes approximately \$91,000 and \$114,000 for the years ended June 30, 2007 and 2006, respectively, for reimbursement of capital costs and wages incurred.

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 with an estimated value of approximately \$450,000 will be transferred to the Organization if certain conditions are met. The condition for the transfer of title is that the Organization function 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:

| | 2007 | 2006 |
|---------------------------------|---------------------|---------------------|
| Land | \$ 1,121,283 | \$ 658,783 |
| Buildings | 2,186,215 | 629,593 |
| Leasehold improvements | 4,339,050 | 4,209,842 |
| Vehicles | 1,544,388 | 1,449,576 |
| Furniture and equipment | 645,345 | 857,496 |
| Construction in progress | 206,825 | 15,136 |
| Total property | 10,043,106 | 7,820,426 |
| Less - Accumulated depreciation | (2,509,268) | (2,341,657) |
| Property, net | <u>\$ 7,533,838</u> | <u>\$ 5,478,769</u> |

Depreciation expense for the years ended June 30, 2007 and 2006 totaled approximately \$578,000 and \$553,000, respectively.

MARC CENTER OF MESA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(with summarized comparative totals as of June 30, 2006)

(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 remains in temporarily restricted net assets at June 30, 2007.

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 will be forgiven at the end of the five year period if the Organization has used the properties in qualifying programs. The notes do not accrue interest and the Organization is not required to make any payments. Approximately \$151,000 from this transfer was recorded as temporarily restricted contribution revenue for the year ended June 30, 2004.

(6) NOTE PAYABLE - BANK LINE OF CREDIT

The Organization has a \$500,000 revolving line of credit with a bank which bears interest at prime (8.25% at June 30, 2007). This line of credit is collateralized by substantially all the assets of the Organization and expires in December 2008.

MARC CENTER OF MESA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(with summarized comparative totals as of June 30, 2006)

(7) NOTES PAYABLE

Notes payable consisted of the following at June 30:

| | 2007 | 2006 |
|--|------------|------------|
| <p>Note payable to a bank; due in monthly installments of approximately \$2,600, including interest at the Treasury Securities Rate (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.</p> | \$ 231,867 | \$ 318,688 |
| <p>Notes payable to banks and finance companies; due in monthly installments totaling approximately \$22,000, including interest ranging from 2.90% to 9.75%, with a weighted average interest rate of 6.20%; maturing through February 2011; collateralized by vehicles and equipment.</p> | 229,649 | 326,366 |
| <p>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 is sold or if agreement to use property in qualifying programs is violated, in which case balance is due in full and interest on the unpaid balance begins to accrue at the prime rate; balance to be forgiven five years from the date of the note (January 2009).</p> | 175,951 | 175,951 |
| <p>Note payable to a bank; balance due in monthly installments of approximately \$1,350 including interest at 6.50%; maturing in June 2037; collateralized by real property.</p> | 213,600 | - |

MARC CENTER OF MESA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(with summarized comparative totals as of June 30, 2006)

(7) NOTES PAYABLE (continued)

Note payable to a bank for a construction loan; credit line totaling \$960,000; draw period ending in October 2007, interest during the draw period due monthly at the Treasury Securities Rate (as defined) immediately preceding the date of the note (4.78%) plus 1.90%; upon termination of draw period, due in monthly installments of principal and interest of approximately \$7,200, including interest at the rate described above, 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; 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.

| | | |
|---------------------|--------------|------------|
| | 960,000 | - |
| Total notes payable | \$ 1,811,067 | \$ 821,005 |

Annual principal payments on notes payable are scheduled as follows:

| Year Ending June 30 | | |
|------------------------|--|--------------|
| 2008 | | \$ 133,434 |
| 2009 | | 123,911 |
| 2010 | | 268,472 |
| 2011 | | 55,471 |
| 2012 | | 54,137 |
| Thereafter | | 1,175,642 |
| Total notes payable | | \$ 1,811,067 |

Interest expense for the years ended June 30, 2007 and 2006, totaled approximately \$90,000 and \$47,000, respectively.

MARC CENTER OF MESA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(with summarized comparative totals as of June 30, 2006)

(8) TEMPORARILY RESTRICTED NET ASSETS

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

| | 2007 | 2006 |
|---|--------------|--------------|
| Restrictions on donated property | \$ 693,849 | \$ 693,849 |
| Time restrictions on contributions receivable | 271,801 | 254,655 |
| Capital campaign - New employment building | 1,476,495 | 1,036,633 |
| Total temporarily restricted net assets | \$ 2,442,145 | \$ 1,985,137 |

Restrictions on donated property are described in Note 5.

The donations for the new employment building are donor-restricted for long-term purposes.

(9) CAPITAL CAMPAIGN

Administrative and Day Services Program Building

The Organization was engaged in a capital campaign to raise money for a new 30,000 square foot building to accommodate both administrative growth and day services programs. In June 2004, construction on the new building was substantially completed.

Contributions receivable included four pledges related to the administrative and day services program building totaling approximately \$189,000 and \$243,000 at June 30, 2007 and 2006, respectively (net of unamortized discount on long-term pledges totaling approximately \$32,000 and \$44,000, respectively).

MARC CENTER OF MESA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(with summarized comparative totals as of June 30, 2006)

(9) CAPITAL CAMPAIGN (continued)

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. As of June 30, 2007 and 2006, approximately \$1,476,000 and \$1,037,000, respectively, had been collected or promised, which consisted of the following at June 30:

| | 2007 | 2006 |
|--|--------------|--------------|
| Cash contributions | \$ 1,148,687 | \$ 517,518 |
| Contributions receivable | 354,400 | 566,950 |
| Unamortized discount on contributions receivable | (26,592) | (47,835) |
| Total campaign contributions - Employment building | \$ 1,476,495 | \$ 1,036,633 |

Included in the totals is one contribution receivable of approximately \$314,000 and \$453,000 at June 30, 2007 and 2006, respectively, (net of unamortized discount of approximately \$26,000 and \$47,000, respectively).

(10) CASH FLOW INFORMATION

Supplemental Disclosure of Cash Flow Information

Cash paid for interest was approximately \$90,000 and \$47,000 during the years ended June 30, 2007 and 2006, respectively.

(11) COMMITMENTS

The Organization leases office space, residential houses, and vehicles and equipment under various non-cancelable operating leases that expire through June 2012. Several leases that expired prior to June 2007 have options to renew for one more year. The Organization also leases residential houses and equipment under various month-to-month leases.

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(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 | |
|-------------------------------------|-------------------|
| 2008 | \$ 286,262 |
| 2009 | 285,932 |
| 2010 | 190,548 |
| 2011 | 69,250 |
| 2012 | 35,248 |
| Total future minimum lease payments | <u>\$ 867,240</u> |

Rent expense for the years ended June 30, 2007 and 2006, totaled approximately \$838,000 and \$716,000, respectively, not including the fair rental value of donated facilities (see Note 1) of approximately \$782,000 and \$777,000, respectively.

(12) CONCENTRATIONS

Revenue

The Organization received significant portions of its total revenue for the years ended June 30, 2007 and 2006 from the Arizona Department of Economic Security (“DES”) and Value Options through contracts that are renewed annually. Revenue from Value Options makes up approximately 93% and 96% of the governmental revenue from the Arizona Department of Health Services as reported in the statement of activities for the years ended June 30, 2007 and 2006, respectively.

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

| | 2007 | | 2006 | |
|---------------|------------------|------------------------|------------------|------------------------|
| | Total Revenue | Accounts Receivable | Total Revenue | Accounts Receivable |
| DES | 48% | \$ 1,098,939 | 47% | \$ 849,648 |
| Value Options | 38% | 25,312 | 38% | - |
| Total | <u>86%</u> | <u>\$ 1,124,251</u> | <u>85%</u> | <u>\$ 849,648</u> |

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(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, 2007, the Organization's uninsured balance was approximately \$2,576,000.

(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 \$192,000 and \$122,000 for the years ended June 30, 2007 and 2006, respectively.

Effective January 1, 2006, the Organization started 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 \$38,000 and \$44,000 for the year ended June 30, 2007 and 2006, respectively, all of which was included in accrued liabilities at June 30, 2007 and 2006.

(14) RELATED PARTY TRANSACTIONS

Contributions from members of the Board of Directors and employees totaled approximately \$27,000 and \$7,000 for the years ended June 30, 2007 and 2006, respectively. Included in contributions receivable at June 30, 2007 and 2006 was approximately \$6,000 and \$7,000, 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.

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(16) SUBSEQUENT EVENTS

Foundation for People with Disabilities

During the year ended June 30, 2007, the Organization entered into merger discussions with the Foundation for People with Disabilities (the "Foundation"). The Foundation is an Arizona corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation provides housing for disabled individuals in residential settings and employment training facilities throughout Maricopa County.

On June 28, 2007, the Foundation's board approved a resolution to allow the Organization to become the sole member of the Foundation's board of directors. On September 27, 2007, the Organization's board approved a resolution to become the sole member of the Foundation's board. Since the Organization did not have control over Foundation activities until after June 30, 2007, no adjustments have been made to the Organization's financial statements for the year ended June 30, 2007. It is anticipated that the Foundation's financial statements will be reflected in the consolidated financial statements of the Organization for the year ending June 30, 2008.

The following data represents summary information from the Foundation's unaudited financial statements as of and for the years ended June 30, 2007 and 2006. The Foundation's financial statements have been prepared using the income tax basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

| <i>(Unaudited)</i> | 2007 | 2006 |
|--|--------------|--------------|
| Assets (primarily land and buildings) | \$ 1,993,000 | \$ 1,928,000 |
| Liabilities (primarily mortgage debt) | 1,183,000 | 1,263,000 |
| Net Assets | \$ 810,000 | \$ 665,000 |
| Revenues, including interest (primarily rental income) | \$ 329,000 | \$ 287,000 |
| Expenses (primarily depreciation and interest expense) | 184,000 | 338,000 |
| Excess or (Deficiency) of Revenues over Expenses | \$ 145,000 | \$ (51,000) |

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(16) SUBSEQUENT EVENTS (continued)

City of Mesa Land Transfer

The City of Mesa is in the process of transferring title of a property to the Organization. The property is currently leased from the City of Mesa (Note 1 – Donated Facilities). The transfer agreement stipulates that the Organization must use this property in qualifying programs for five years after the date of transfer. In addition, the Organization is 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.