MARC CENTER OF MESA, INC.
AND
AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

June 30, 2008

MARC CENTER OF MESA, INC.
AND
AFFILIATE

TABLE OF CONTENTS

Schmidt Westergard
& COMPANY, PLLC
"STRENGTH THROUGH NUMBERS"
Est. 1968 · An Independent Member of BKR International

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statement of financial position of Marc Center of Mesa, Inc. (a nonprofit organization) and Affiliate (collectively, the "Organization") as of June 30, 2008, 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.

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 Affiliate as of June 30, 2008, 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 13, 2008

77 West University Drive · Mesa, Arizona 85201 · Tel 480.834.6030 · Fax 480.644.9877 · www.sw-cpa.com

Partners: James A. Schmidt, CPA Lynn C. Westergard, CPA Gerald A. Henderson, CPA Robert L. Maxwell III (Trey), CPA Jeffrey A. Bither, CPA

MARC CENTER OF MESA, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2008

ASSETS

Cash and cash equivalents	$ 3,977,089
Consumer trust funds	31,870
Accounts receivable, net	1,340,047
Contributions receivable, net	1,723,443
Prepaid expenses and other	123,811
Investments	80,220
Cash restricted to investment in property	12,503
Property, net	12,649,345
Deposits	565,898
TOTAL ASSETS	$ 20,504,226

LIABILITIES AND NET ASSETS

LIABILITIES	
Consumer trust funds	$ 31,870
Accounts payable	347,009
Accrued liabilities	1,130,529
Notes payable	3,635,365
Total liabilities	5,144,773
NET ASSETS	
Unrestricted	12,935,534
Temporarily restricted	2,413,919
Permanently restricted	10,000
Total net assets	15,359,453
TOTAL LIABILITIES AND NET ASSETS	$ 20,504,226

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

MARC CENTER OF MESA, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUE AND GAINS (LOSSES)				
Governmental				
Arizona Department of Economic Security	$ 10,563,829	$ -	$ -	$ 10,563,829
Arizona Department of Health Services	9,896,691	-	-	9,896,691
City of Mesa	16,205	-	-	16,205
Total governmental revenue	20,476,725	-	-	20,476,725
Other				
Service contracts	422,370	-	-	422,370
Service fees	82,807	-	-	82,807
United Way contributions	6,112	138,003	-	144,115
Other contributions	109,648	1,556,087	-	1,665,735
Interest income	164,167	3,092	-	167,259
Net unrealized losses on investments	(6,504)	-	-	(6,504)
Loss on disposition of property	(8,708)	-	-	(8,708)
Donated facilities	842,121	-	-	842,121
Other	169,437	-	-	169,437
Total other revenue and gains (losses)	1,781,450	1,697,182	-	3,478,632
Total revenue and gains (losses)	22,258,175	1,697,182	-	23,955,357
Net assets released from restrictions				
Restrictions satisfied by the passage of time	1,750,600	(1,750,600)	-	-
EXPENSES				
Program services				
Residential	6,871,635	-	-	6,871,635
Employment services	3,424,243	-	-	3,424,243
Day services	2,766,519	-	-	2,766,519
Home services	3,533,395	-	-	3,533,395
Outpatient clinic	1,262,493	-	-	1,262,493
Total program services	17,858,285	-	-	17,858,285
Supporting activities				
Management and general	3,482,585	-	-	3,482,585
Fundraising	120,095	-	-	120,095
Total supporting activities	3,602,680	-	-	3,602,680
Total expenses	21,460,965	-	-	21,460,965
CHANGE IN NET ASSETS	2,547,810	(53,418)	-	2,494,392
NET ASSETS – Beginning of year	10,387,724	2,467,337	10,000	12,865,061
NET ASSETS – End of year	$ 12,935,534	$ 2,413,919	$ 10,000	$ 15,359,453

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

MARC CENTER OF MESA, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2008

	Program Services						Supporting Activities		
	Residential	Employment Services	Day Services	Home Services	Outpatient Clinic	Total Program Services.	Management and General	Fundraising	Total Supporting Activities
Salaries	$ 4,337,382	$ 2,089,334	$ 1,385,284	$ 2,433,247	$ 831,283	$ 11,076,530	$ 1,652,827	$ 57,831	$ 1,710,658
Employee-related expenses	797,095	371,892	253,022	395,780	144,296	1,962,085	316,675	8,884	325,559
Occupancy	701,125	401,120	302,203	166,903	92,873	1,664,224	160,485	6,058	166,543
Professional fees	46,601	41,012	8,197	210,352	53,716	359,878	169,251	20,190	189,441
Transportation	255,676	106,686	187,350	86,539	1,213	637,464	87,968	1,955	89,923
Supplies	184,672	167,305	121,357	59,325	37,357	570,016	289,582	6,041	295,623
Equipment rental	12,460	46,463	26,119	16,003	11,508	112,553	28,072	1,787	29,859
Depreciation	246,531	82,681	185,087	45,336	36,888	596,523	149,320	7,045	156,365
Donated facilities	148,969	61,680	223,564	95,057	6,851	536,121	302,196	3,804	306,000
Other expenses	141,124	56,070	74,336	24,853	46,508	342,891	326,209	6,500	332,709
Total expenses	$ 6,871,635	$ 3,424,243	$ 2,766,519	$ 3,533,395	$ 1,262,493	$ 17,858,285	$ 3,482,585	$ 120,095	$ 3,602,680

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

MARC CENTER OF MESA, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 2,494,392
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Net unrealized losses on investments	6,504
Depreciation	752,888
Donated property	(124,235)
Loss on disposition of property	8,708
Contributions restricted to investment in property	(342,236)
Increase in allowance for doubtful accounts	27,950
(Increase) decrease in	
Accounts receivable	18,968
Contributions receivable	(1,082,952)
Prepaid expenses and other	387
Deposits	(457,145)
Increase (decrease) in	
Accounts payable	(56,084)
Accrued liabilities	179,269
Net cash provided by operating activities	1,426,414
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	3,163
Purchase of assets restricted to investment in property	(342,236)
Proceeds from conversion of assets restricted to investment in property	1,478,420
Proceeds from sale of property	64,934
Purchases of property	(4,022,851)
Net cash used in investing activities	(2,818,570)
CASH FLOWS FROM FINANCING ACTIVITIES	
Contributions restricted to investment in property	342,236
Payments on notes payable	(251,984)
Proceeds from borrowings on notes payable	893,462
Net cash provided by financing activities	983,714
Net decrease in cash and cash equivalents	(408,442)
CASH AND CASH EQUIVALENTS - Beginning of year	4,385,531
CASH AND CASH EQUIVALENTS - End of year	$ 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.

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.

Principles of Consolidation

On June 28, 2007, the Foundation's board of directors approved a resolution to allow Marc Center to become the sole member of the Foundation's board of directors. On September 27, 2007, Marc Center's board of directors approved a resolution to become the sole member of the Foundation. Marc Center has accounted for this consolidation through the pooling of interests method of accounting, in which the book values of the Foundation's assets and liabilities are consolidated as of the beginning of the fiscal year. Therefore, the accompanying consolidated financial statements include the accounts of Marc Center and the Foundation (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.

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 $135,000 as of June 30, 2008. 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 year ended June 30, 2008:

Allowance for doubtful accounts, beginning of year	$	89,734
Provision for realization losses		86,387
Write-offs		(58,437)
Allowance for doubtful accounts, end of year	$	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, 2008 totaled approximately $80,000, all of which was invested in mutual funds. Net unrealized losses for the year ended June 30, 2008 totaled approximately $7,000.

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 gifts of long-lived assets must be used, the Organization does not imply time restrictions on such contributions.

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

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.

Donated Facilities

The Organization leases its administrative offices, a day treatment facility and a group home from the City of Mesa. The leases require an annual payment of $1 each. The leases require 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 these 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. Subsequent to June 30, 2008, the City of Mesa transferred title of these properties to the Organization, as further described in Note 16.

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

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.

(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, 2008:

Receivable in less than one year	$ 1,606,272
Receivable in one to five years	313,175
Total contributions receivable	1,919,447
Less - Unamortized discount	(46,004)
Subtotal	1,873,443
Less - Allowance for uncollectible contributions	(150,000)
Total contributions receivable, net	$ 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 $600,000 at June 30, 2007, 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 June 30, 2006, 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.

During the year ended June 30, 2002, the Organization received a conditional promise to give as part of an agreement with Value Options (Magellan replaced Value Options as the RBHA for Maricopa County and has confirmed that it will honor this agreement). 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, 2008:

Land	2,606,451
Buildings	4,139,805
Leasehold improvements	5,041,010
Vehicles	1,625,251
Furniture and equipment	651,260
Construction in progress	2,221,500
Total property	16,285,277
Less - Accumulated depreciation	(3,635,932)
Property, net	$ 12,649,345

Depreciation expense for the year ended June 30, 2008 totaled approximately $753,000, of which $113,000 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 remains in temporarily restricted net assets at June 30, 2008.

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 and remains in temporarily restricted net assets at June 30, 2008.

(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 (5.00% at June 30, 2008). This line of credit is collateralized by substantially all the assets of the Organization and expires in December 2008. There were no amounts outstanding on this line of credit at June 30, 2008.

(7) NOTES PAYABLE

Notes payable consisted of the following at June 30, 2008:

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.	$ 217,618
Notes payable to banks and finance companies; due in monthly installments totaling approximately $8,000, including interest ranging from 2.90% to 8.25%, with a weighted average interest rate of 6.26%; maturing through August 2011; collateralized by vehicles and equipment.	143,670
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).	175,951
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.	211,213

(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 \$7,200, including interest at the Treasuries 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 1.9%; 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.	942,309
Note payable to a bank to facilitate construction; interest only payments due monthly at prime (5.00%) less .50%; principal balance plus all unpaid interest due at maturity in April 2009, at which time the note will be converted into a monthly installment loan; collateralized by real property.	646,800
Note payable to a finance company; due in monthly installments of approximately \$4,096, including interest at approximately 6.7%; final payment in September 2013; collateralized by software and equipment.	199,707
Notes payable to a bank; due in monthly installments totaling approximately \$12,000, including interest ranging from 5.25% to 6.50%, with a weighted average interest rate of 5.58%; maturing through October 2018; collateralized by real property.	1,098,097
Total notes payable	\$ 3,635,365

(7) NOTES PAYABLE (continued)

Annual principal payments on notes payable are scheduled as follows:

Year Ending June 30	
2009	$ 1,054,194
2010	234,491
2011	210,673
2012	206,974
2013	217,698
Thereafter	1,711,335
Total notes payable	$ 3,635,365

Interest expense for the year ended June 30, 2008 totaled approximately $169,000, of which approximately $63,000 represents interest expense from the Foundation. In addition, approximately $8,000 of interest expense was capitalized during the year ended June 30, 2008.

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, 2008, the Organization was in compliance with these requirements.

(8) RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2008:

Restrictions on donated property	$ 693,849
Time restrictions on contributions receivable	185,297
Capital campaign - New employment building	1,506,489
Other	28,284
Total temporarily restricted net assets	$ 2,413,919

Restrictions on donated property are described in Note 5. The donations for the new employment building are donor-restricted for long-term purposes.

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 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 three pledges related to the administrative and day services program building totaling approximately $192,000 at June 30, 2008 (net of unamortized discount on long-term pledges totaling approximately $28,000).

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. As of June 30, 2008, approximately $1,506,000 had been collected or promised, which consisted of the following at June 30, 2008:

Cash contributions	$ 12,503
Contributions receivable	1,511,600
Unamortized discount on contributions receivable	(17,614)
Total campaign contributions - Employment building	$ 1,506,489

Included in the total is one contribution receivable of approximately $322,000 at June 30, 2008 (net of unamortized discount of approximately $18,000).

(10) CASH FLOW INFORMATION

Supplemental Disclosure of Cash Flow Information

Cash paid for interest was approximately $169,000, net of amounts capitalized, during the year ended June 30, 2008.

(11) COMMITMENTS

The Organization leases office space, residential houses, and vehicles and equipment under various non-cancelable operating leases that expire through March 2013. Several leases that expired prior to June 2008 have options to renew for one more year. 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	
2009	$ 450,779
2010	315,727
2011	177,600
2012	126,623
2013	59,214
Total future minimum lease payments	$ 1,129,943

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

(12) CONCENTRATIONS

Revenue

The Organization received significant portions of its total revenue for the year ended June 30, 2008 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 90% of the governmental revenue from the Arizona Department of Health Services as reported in the consolidated statement of activities for the year ended June 30, 2008.

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, 2008:

	Total Revenue	Accounts Receivable
DES	44%	$ 1,017,324
ADHS	42%	333,815
Total	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, 2008, the Organization's uninsured balance was approximately $2,104,000.

(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 $217,000 for the year ended June 30, 2008.

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 $62,000 for the year ended June 30, 2008, all of which was included in accrued liabilities at June 30, 2008.

(14) RELATED PARTY TRANSACTIONS

Contributions from members of the board of directors and employees totaled approximately $9,000 for the year ended June 30, 2008. Included in contributions receivable at June 30, 2008 was approximately $6,000 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) SUBSEQUENT EVENTS

City of Mesa Property Transfers

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 (Note 1 – Donated Facilities). Because the City of Mesa had promised to make this contribution during the year ended June 30, 2008, the $1,160,000 is recorded in contributions receivable in the accompanying consolidated statement of financial position at June 30, 2008 and is reflected as temporarily restricted contribution revenue for the year ended June 30, 2008. 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. 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 at June 30, 2008.

In connection with the property transfer described above, in July 2008, the Organization obtained a construction loan from a bank to help finance the cost of the new employment building (Note 9). The credit line under the construction loan agreement is $3,000,000 and the draw period ends in July 2009. The balance bears interest at the LIBOR Rate (as defined) plus 1.99%. During the draw period, interest only payments are due monthly. After the draw period, monthly principal payments of $12,500, plus interest, are due monthly, with all unpaid principal and interest due in July 2011. The promissory note to the City referred to above is subordinate to the construction loan.

On September 11, 2008, the City of Mesa executed agreements indicating its intent to transfer a residential and a commercial property to the Organization with a combined estimated fair value of $438,000 as of September 25, 2008. It is anticipated that the $438,000 value of the properties will be recorded as temporarily restricted contribution revenue for the year ending June 30, 2009. The agreements stipulate that the Organization must use the properties in qualifying programs for five years after the date of transfer.