AZ Corp. Commission

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WEB FORM COPY

STATE OF ARIZONA CORPORATION COMMISSION
CORPORATION ANNUAL REPORT & CERTIFICATE OF DISCLOSURE

DUE ON OR BEFORE 01/30/2005 FY04-05 **FILING FEE** $10.00

The following information is required by A.R.S. §§10-1622 & 10-11622 for all corporations organized pursuant to Arizona Revised Statutes, Title 10. The Commission's authority to prescribe this form is A.R.S. §§10-121.A. & 10-3121.A. YOUR REPORT MUST BE SUBMITTED ON THIS ORIGINAL FORM. Make changes or corrections where necessary. Information for the report should reflect the current status of the corporation. See instructions on page 4 for proper format.

1. -0187071-1
MINGUS MOUNTAIN ESTATE RESIDENTIAL CENTER, INC.
PO BOX 26485
PRESCOTT VLY, AZ 85312

RECEIVED
FEB 09 2005
ARIZONA CORP. COMMISSION
CORPORATIONS DIVISION

Business Phone: 928-772-6394 (Business phone is optional.)
State of Domicile: ARIZONA **Type of Corporation:** NON-PROFIT

RECEIVED
APR 05 2005
ARIZONA CORP. COMMISSION
CORPORATIONS DIVISION

2. Statutory Agent: DONALD L CROSS
Mailing Address: 2001 W CAMELBACK RD #270
City, State, Zip: PHOENIX, AZ 85013

Physical Address, If Different.
Physical Address:
City, State, Zip:

No $ 04/08/05

ACC USE ONLY IPR 2.15.05
Fee $10
Penalty $
Reinstate $
Expedite $
Resubmit $

930351 969631

Use this box only if appointing a new Statutory Agent

If appointing a new statutory agent, the new agent MUST consent to that appointment by signing below.

I, (individual) or We, (corporation or limited liability company) having been designated the new Statutory Agent, do hereby consent to this appointment until my removal or resignation pursuant to law.

Signature of *new* Statutory Agent

Printed Name of *new* Statutory Agent

3. **Secondary Address:**

(Foreign Corporations are **REQUIRED** to complete this section).

4. Check the one category below which best describes the CHARACTER OF BUSINESS of your corporation.

BUSINESS CORPORATIONS

- 1. Accounting
- 2. Advertising
- 3. Aerospace
- 4. Agriculture
- 5. Architecture
- 6. Banking/Financo
- 7. Barbers/Cosmetology
- 8. Construction
- 9. Contractor
- 10. Credit/Collection
- 11. Education
- 12. Engineering
- 13. Entertainment
- 14. General Consulting
- 15. Health Care
- 16. Hotel/Motel
- 17. Import/Export
- 18. Insurance
- 19. Legal Services
- 20. Manufacturing
- 21. Mining
- 22. News Media
- 23. Pharmaceutical
- 24. Publishing/Printing
- 25. Ranching/Livestock
- 26. Real Estate
- 27. Restaurant/Bar
- 28. Retail Sales
- 29. Science/Research
- 30. Sports/Sporting Events
- 31. Technology(Computers)
- 32. Technology(General)
- 33. Television/Radio
- 34. Tourism/Convention Services
- 35. Transportation
- 36. Utilities
- 37. Veterinary Medicine/Animal Care
- 38. Other _____

NON-PROFIT CORPORATIONS

1. Charitable
2. Benevolent
3. Educational
4. Civic
5. Political
6. Religious
7. Social
8. Literary
9. Cultural
10. Athletic
11. Science/Research
12. X Hospital/Health Care
13. Agricultural
14. Animal Husbandry
15. Homeowner's Association
16. Professional, commercial industrial or trade association
17. Other

5. CAPITALIZATION: (Business Corporations and Business Trusts are **REQUIRED** to complete this section.)

Business trusts must indicate the number of transferable certificates held by trustees evidencing their beneficial interest in the trust estate. PLEASE PRINT OR TYPE CLEARLY.

5a. Please examine the corporation's original Articles of Incorporation for the amount of **shares authorized**.

Number of Shares/Certificates **Authorized**	Class	Series Within Class (if any)

5b. Review all corporation amendments to determine if the original number of shares has changed. Examine the corporation's minutes for the number of **shares issued**.

Number of Shares/Certificates **Issued**	Class	Series Within Class (if any)

6. SHAREHOLDERS: (Business Corporations and Business Trusts are **REQUIRED** to complete this section.)

List shareholders holding more than 20% of any class of shares issued by the corporation, or having more than a 20% beneficial interest in the corporation. PLEASE PRINT OR TYPE CLEARLY.

Name: _____ **Name:** _____

NONE ☑

Name: _____ **Name:** _____

7. OFFICERS PLEASE PRINT OR TYPE CLEARLY. YOU MUST LIST AT LEAST ONE.

Name: J. Donald Larkin
Title: Chairman
Address: 6973 W. firebird lane Glendale, AZ 85308
Date taking office: 12-6-95

Name: Timothy Peterson
Title: President
Address: 2449 E. Chambers Street Phoenix, AZ 85040
Date taking office: 12-6-95

Name: Mary Sue Larkin
Title: Secretary
Address: 6973 W. firebird Lane Glendale, AZ 85308
Date taking office: 12-6-95

Name: _____
Title: _____
Address: _____
Date taking office: _____

8. DIRECTORS PLEASE PRINT OR TYPE CLEARLY. YOU MUST LIST AT LEAST ONE. See attached

Name: _____
Address: _____
Date taking office: _____

Name: _____
Address: _____
Date taking office: _____

Name: _____
Address: _____
Date taking office: _____

Name: _____
Address: _____
Date taking office: _____

KAISER & CAROLIN, P.C.

-0187071-1

Certified Public Accountants
Michael C. Kaiser, CPA
Kathleen A. Carolin, CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors
Mingus Mountain Estate Residential Center, Inc.
Prescott Valley, Arizona

We have audited the accompanying combined statements of financial position of Mingus Mountain Estate Residential Center, Inc. (an Arizona not-for-profit corporation) as of June 30, 2004 and 2003 and the related combined statements of activities, functional expenses and cash flows for the years then ended. The combined financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Mingus Mountain Estate Residential Center, Inc. as of June 30, 2004 and 2003, and its combined changes in net assets, functional expenses and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Kaiser & Carolin, P.C.

January 20, 2005

8767 E. Via de Ventura • Suite 270 • Scottsdale, AZ 85258 • (480) 922-7074 Office • (480) 922-1624 Fax • kccpas.com
Members: American Institute of Certified Public Accountants • Arizona Society of Certified Public Accountants

MINGUS MOUNTAIN ESTATE RESIDENTIAL CENTER, INC.

COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2004 AND 2003

ASSETS

	2004	2003
CURRENT ASSETS:		
Cash	$ 185,371	$ 114,352
Accounts receivable, net of allowance of $125,000 and $23,408	409,629	756,886
Total current assets	595,000	871,238
PROPERTY AND EQUIPMENT, NET	2,567,860	2,490,436
ENDOWMENT INVESTMENTS	30,555	28,277
OTHER ASSETS	24,020	22,048
Total assets	$ 3,217,435	$ 3,411,999

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	$ 722	$ 104,582
Due to Sequel Youth Services of Arizona, LLC	785,862	-
Accrued expenses	-	227,839
Current portion of long-term debt	299,606	293,179
Current portion of settlement agreement	7,200	7,200
Total current liabilities	1,093,390	632,800
LONG-TERM DEBT, net of current portion	1,684,681	1,746,142
SETTLEMENT AGREEMENT, net of current portion	18,400	25,700
ANNUITY FUND LIABILITIES	50,834	61,094
Total liabilities	2,847,305	2,465,736
NET ASSETS:		
Unrestricted	316,187	752,386
Temporarily restricted	23,388	163,080
Permanently restricted	30,555	30,797
Total net assets	370,130	946,263
	$ 3,217,435	$ 3,411,999

See notes to combined financial statements.

MINGUS MOUNTAIN ESTATE RESIDENTIAL CENTER, INC.

COMBINED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2004 AND 2003

	2004				2003			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC AND OTHER SUPPORT:								
Government agencies	$2,319,500	$ 228,261	$ -	$2,547,761	$3,983,567	$ 67,332	$ -	$4,050,899
Contributions	434,948	30,395	1,700	467,043	103,925	50,400	2,300	156,625
Store income	253,430	-	-	253,430	233,739	-	-	233,739
Dividend and interest income	1,199	-	-	1,199	1,694	-	-	1,694
Unrealized gain (loss) on investments	-	-	(634)	(634)	-	-	(753)	(753)
Gain on sale of property and equipment	-	-	-	-	1,688	-	-	1,688
Miscellaneous income	6,314	-	-	6,314	54,908	-	-	54,908
Total public and other support	3,015,391	258,656	1,066	3,275,113	4,379,521	117,732	1,547	4,498,800
FUNCTIONAL EXPENSES:								
Residential facilities	1,386,113	-	-	1,386,113	2,693,033	-	-	2,693,033
Education and support	491,666	-	-	491,666	737,170	-	-	737,170
General and administrative	1,796,170	-	-	1,796,170	814,936	-	-	814,936
Total functional expenses	3,673,949	-	-	3,673,949	4,245,139	-	-	4,245,139
DEPRECIATION AND AMORTIZATION	177,297	-	-	177,297	182,608	-	-	182,608
INCREASE (DECREASE) IN NET ASSETS	(835,855)	258,656	1,066	(576,133)	(48,226)	117,732	1,547	71,053
NET ASSETS, beginning of year	751,621	163,092	31,550	946,263	693,959	152,001	29,250	875,210
NET ASSETS RELEASED FROM RESTRICTIONS	400,421	(398,360)	(2,061)	-	106,653	(106,653)	-	-
NET ASSETS, end of year	$ 316,187	$ 23,388	$ 30,555	$ 370,130	$ 752,386	$ 163,080	$ 30,797	$ 946,263

See notes to combined financial statements.

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MINGUS MOUNTAIN ESTATE RESIDENTIAL CENTER, INC.

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003

	2004				2003			
	Program Services		Supporting Services	Total	Program Services		Supporting Services	Total
	Residential Facilities	Education and Support	General and Administrative	Functional Expenses	Residential Facilities	Education and Support	General and Administrative	Functional Expenses
Salaries and wages	$ 741,022	$ 352,386	$ 348,656	$1,442,064	$1,568,861	$ 537,482	$ 453,723	$2,560,066
Payroll taxes and employee benefits	151,470	92,059	73,586	317,115	319,764	91,769	94,127	505,660
Total	892,492	444,445	422,242	1,759,179	1,888,625	629,251	547,850	3,065,726
Advertising and promotion	1,050	-	2,084	3,134	15,595	-	5,211	20,806
Bad debts	-	-	102,333	102,333	-	-	23,408	23,408
Bank charges	-	-	167	167	-	-	703	703
Charitable annuities expense	-	-	(258)	(258)	-	-	14,131	14,131
Cleaning/kitchen supplies	6,336	-	-	6,336	18,967	-	-	18,967
Equipment and horses	10,565	21,380	-	31,945	13,973	36,750	-	50,723
Equipment rental	18,846	-	3,930	22,776	44,502	-	-	44,502
Food	58,114	-	-	58,114	161,573	-	-	161,573
Insurance	49,099	-	8,815	57,914	45,859	-	3,093	48,952
Interest	166,283	-	21,747	188,030	132,716	-	16,472	149,188
Laundry	5,755	-	-	5,755	11,260	-	-	11,260
Management fees	-	-	1,055,795	1,055,795	-	-	-	-
Medical settlement	-	-	8,290	8,290	-	-	8,883	8,883
Medical supplies	32,606	-	-	32,606	44,269	-	-	44,269
Miscellaneous	-	-	-	-	-	625	1,679	2,304
Outside services	45,402	-	-	45,402	86,051	-	-	86,051
Pennywise store	-	-	46,944	46,944	-	-	80,717	80,717
Personal clothing allowance	178	-	-	178	291	-	-	291
Postage	-	-	2,892	2,892	-	-	(3,135)	(3,135)
Printing	-	-	643	643	-	-	2,630	2,630
Professional fees	-	17,927	62,924	80,851	-	30,871	61,018	91,889
Recreation	8,702	-	-	8,702	14,311	-	-	14,311
Rent	-	-	10,756	10,756	-	-	15,123	15,123
Repairs and maintenance	26,018	-	9,595	35,613	48,023	-	206	48,229
School supplies and equipment	-	7,229	-	7,229	-	39,673	-	39,673
Staff training and seminars	1,449	-	-	1,449	5,704	-	-	5,704
Supplies	5,384	685	13,741	19,810	39,203	-	22,441	61,644
Taxes	-	-	626	626	-	-	218	218
Telephone	12,072	-	14,869	26,941	22,084	-	5,269	27,353
Travel	12,553	-	190	12,743	26,434	-	1,489	27,923
Utilities	8,603	-	7,845	16,448	28,576	-	7,530	36,106
Vehicle and maintenance	24,606	-	-	24,606	45,017	-	-	45,017
Total functional expenses	$1,386,113	$ 491,666	$ 1,796,170	$3,673,949	$2,693,033	$ 737,170	$ 814,936	$4,245,139

See notes to combined financial statements.

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MINGUS MOUNTAIN ESTATE RESIDENTIAL CENTER, INC.

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from governmental agencies	$ 2,572,540	$ 3,722,696
Cash received from unrestricted contributions and store	688,378	424,414
Cash received from temporarily restricted contributions	74,371	50,400
Cash received from permanently restricted contributions	1,700	2,300
Dividends and interest received	1,199	1,694
Cash paid for program expenses	(1,719,786)	(3,297,487)
Cash paid for administration	(1,218,909)	(747,868)
Interest paid	(188,030)	(149,188)
Net cash provided by operating activities	211,463	6,961
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of property and equipment	-	39,407
Repayments of annuity fund liabilities	(12,062)	(11,320)
Purchases of property and equipment	(22,602)	(109,821)
Change in permanently restricted investments	(2,912)	(2,082)
Net cash used by investing activities	(37,576)	(83,816)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of ADE liability	-	(157,119)
Proceeds from long-term debt	-	125,783
Repayment of long-term debt	(102,868)	(87,708)
Net cash used by financing activities	(102,868)	(119,044)
NET INCREASE (DECREASE) IN CASH	71,019	(195,899)
CASH, beginning of year	114,352	310,251
CASH, end of year	$ 185,371	$ 114,352

Continued

See notes to combined financial statements.

MINGUS MOUNTAIN ESTATE RESIDENTIAL CENTER, INC.

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

(Continued)

	2004	2003
Increase (decrease) in net assets	$ (576,133)	$ 71,053
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	177,297	182,608
Bad debts	102,333	23,408
Unrealized loss on investments	634	753
Gain on sale of property and equipment	-	(1,688)
Change in value of annuity fund liability	1,802	18,980
Contribution of telecommunications equipment	(184,285)	-
Increase (decrease) in:		
Accounts receivable	244,924	(296,361)
Other assets	(1,972)	3,300
Increase (decrease) in:		
Accounts payable	(103,860)	13,057
Due to Sequel Youth Services of Arizona, LLC	785,862	-
Accrued expenses	(227,839)	(1,049)
Settlement agreement payable	(7,300)	(7,100)
Net cash provided by operating activities	$ 211,463	$ 6,961

SUPPLEMENTAL DISCLOSURES:

Non-cash investing and financing activities:	
Acquisition price of telecommunications equipment	$ 232,119
Temporarily restricted grant revenues	184,285
Amount financed	$ 47,834

See notes to combined financial statements.

MINGUS MOUNTAIN ESTATE RESIDENTIAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Mingus Mountain Estate Residential Center, Inc. (the Center) (MMERCI) was incorporated under the laws of the State of Arizona as a not-for-profit corporation in 1986. The Center operates three residential facilities for adolescent females near Prescott Valley, Arizona. Substantially all of the Center's revenue and unsecured receivables are from government organizations in Arizona, Indiana and Michigan.

Mingus Mountain Academy (the Academy) was organized as a not-for-profit charter school in July 1996. The charter with the State of Arizona is effective until July 2011. The Academy operates as a division of MMERCI and provides educational services to MMERCI clients. Substantially all of the Academy's revenue is from the State of Arizona Department of Education.

Combined Financial Statements

The combined financial statements include the accounts of the Center and the Academy, hereafter referred to as the Organization. All significant inter-organizational transactions and accounts have been eliminated.

Basis of Presentation

Financial statement presentation follows the recommendations of 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.

Unrestricted Net Assets – not subject to donor imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Organization's management.

Temporarily Restricted Net Assets – subject to donor imposed stipulations that may be fulfilled by actions of the Organization to meet the stipulations or that become unrestricted at the date specified by the donor.

Permanently Restricted Net Assets – subject to donor imposed stipulations that they be retained and invested permanently by the Organization to use all or part of the return on these net assets for specified or unspecified purposes.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

The Organization accounts for contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made.* Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restrictions are accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions. Restricted support, where restrictions are met in the same period as the donation is made, is shown as an addition to unrestricted support.

The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. There were no uncollectible unconditional promises to give at June 30, 2004 and 2003.

Donated Materials and Services

In addition to receiving cash contributions, the Organization occasionally receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair market value of certain in-kind donations as an asset or expense in its financial statements, and increase donations by a like amount.

A substantial number of volunteers have donated significant amounts of time to the Organization's programs and supporting services. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. For the years ended June 30, 2004 and 2003, there were no amounts recorded for contributed services and materials.

Use of Estimates in the Preparation of Financial Statements

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Cash and Cash Equivalents

The Organization, in the normal course of business, maintains checking and savings account balances in excess of the $100,000 Federal Deposit Insurance Corporation's insurance limit.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

The Organization carries its accounts receivable at cost less an allowance for doubtful accounts which is based on management's assessment of the collectibility of accounts receivable.

Property and Equipment

Property and equipment are recorded at cost, or, if donated, at the approximate fair value at the date of donation. The Organization capitalizes all assets in excess of $1,000. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	29 – 30 years
Furniture and office equipment	5 – 7 years
Machinery and equipment	5 – 7 years
Leasehold improvements	7 – 15 years
Vehicles	3 years
School equipment	5 – 7 years

Investments

The Organization has adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations.* Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the combined statements of financial position. Unrealized gains and losses are included in the combined statements of activities.

Functional Expense Allocation

The costs of providing the Organization's various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code. The Organization also qualifies for the charitable contribution deduction under Section 70 of the Code and has been classified as an organization that is not a private foundation under Section 509(a)(2). Income determined to be unrelated business taxable income (UBTI) would be taxable. UBTI for the years ended June 30, 2004 and 2003 was not material to the combined financial statements.

Reclassifications

Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

NOTE 2: PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2004 and 2003:

	2004	2003
Buildings	$1,826,257	$ 1,822,772
Land	370,064	370,064
Furniture and office equipment	146,799	129,814
Machinery and equipment	77,650	69,492
Land and building improvements	541,364	548,712
Vehicles	255,895	255,895
School equipment	372,344	139,976
	3,590,373	3,336,725
Less: accumulated depreciation	1,022,513	846,289
Property and equipment, net	$ 2,567,860	$ 2,490,436

NOTE 3: TELECOMMUNICATIONS AND INTERNET GRANT

During the year ended June 30, 2004, the Academy received funding from an Arizona State Department of Education Local Education Through Technology grant for a new telephone and internet access system. In addition to the equipment, maintenance services and certain telephone usage amounts are covered by the grant. Due to the nature of the Academy's student population and the rural location of the Academy, the grant covers ninety percent of eligible expenditures. The remaining ten percent plus the ineligible costs are covered by a capital lease with CitiCapital Technology Finance, Inc.

The grant amount of $184,285 is recorded in these financial statements as revenues from governmental agencies. The total equipment cost of $232,119 is reflected in machinery and equipment on the balance sheet, and the capital lease has been recorded in long-term debt. Payments are $1,608 per month including interest at 12.839%. Accumulated depreciation and depreciation expense related to the capitalized lease asset was $5,803 for the year ended June 30, 2004.

NOTE 3: TELECOMMUNICATIONS AND INTERNET GRANT (continued)

The following is a summary of payments on the capital lease to maturity:

Year Ending June 30,	
2005	$ 19,296
2006	19,296
2007	9,648
	48,240
Less interest	7,162
	$ 41,078

NOTE 4: CHARITABLE GIFT ANNUITIES

During the years ended June 30, 2004 and 2003, the Center entered into one additional Joint Gift Annuity Agreement. During the years ended June 30, 2004 and 2003, the Center agreed to pay the donors aggregate quarterly payments of $2,644 and $3,054, respectively, for the remainder of the donors' lives.

In accordance with the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Not-For-Profit Organizations*, the Center has recorded a liability for the actuarial present value of the annuity payments. Discounts rates are determined using the Internal Revenue Service applicable federal rates for determining the present value of an annuity as of the last month of the year. Actuarial assumptions are based on IRS Publication 1457 tables.

During the years ended June 30, 2004 and 2003, annuity contributions by the donors were $5,000 and $10,000, respectively and payments to the donors were $12,062 and $11,320, respectively. During the year ended June 30, 2002, the Center withdrew all annuity investments and deposited the funds into its operating account.

NOTE 5: ENDOWMENT FUND INVESTMENTS

The Center has invested its two endowments in money market funds, U.S. Treasury securities, mutual funds and corporate bonds. The investment income generated by the securities is available to be used for the Center's operating purposes. The principal remains in perpetuity per the endowment agreements.

Investments which are stated at fair value are summarized as follows:

	2004		2003	
	Cost	Fair Market Value	Cost	Fair Market Value
Money market funds	$ 1,931	$ 1,931	$ 732	$ 732
U.S Treasury Notes	6,945	7,042	6,945	7,383
Mutual funds	12,000	11,294	10,300	9,780
Corporate bonds	10,560	10,288	10,560	10,382
	$ 31,436	$ 30,555	$ 28,537	$ 28,277

The following schedule summarizes the investment return in the statement of activities:

	2004		
	Unrestricted	Permanently Restricted	Total
Dividend and interest income	$ 1,199	$ -	$ 1,199
Unrealized loss on investments	-	(634)	(634)
	$ 1,199	$ (634)	$ 565

	2003		
	Unrestricted	Permanently Restricted	Total
Dividend and interest income	$ 1,694	$ -	$ 1,694
Unrealized loss on investments	-	(753)	(753)
	$ 1,694	$ (753)	$ 941

NOTE 6: LONG-TERM DEBT

Long-term debt consists of the following:

	2004	2003
Mortgage payable to First American Title, original amount of $1,685,956, secured by deed of trust on land and buildings, monthly payments of $16,793 including interest at 8%, maturing June 2018	$ 1,690,678	$ 1,753,271
Note payable to Lincoln Trust Company, Custodian FBO Richard E. Peterson & Associates Pension/ Profit Sharing Account and Richard E. Peterson and Nancy C. Peterson Trustees of the Peterson Family Trust, original amount $200,000, secured by deed of trust on real property, monthly interest only payments of $1,667 at 10% through maturity date of March 2005	200,000	200,000
Note payable to Ford Motor Credit, secured by vehicle, original amount of $32,254, monthly payments of $743 including interest at 4.9%, maturing February 2004	-	5,859
Note payable to GMAC, secured by vehicle, original amount of $18,152, monthly payments of $465 including interest at 10.25%, maturing April 2004	-	4,404
Capitalized lease payable to CitiCapital Technology Finance, Inc. secured by equipment, original amount of $47,834, monthly payments of $1,608 including imputed interest at 12.839%, maturing December 2006	41,078	-
Note payable to GMAC, secured by vehicle, original amount of $15,356, monthly payments of $330 including interest at 10.25%, maturing April 2004	-	6,597
Note payable to GMAC, secured by vehicle, original amount of $23,985, monthly payments of $400, non-interest bearing, maturing March 2008	17,189	22,386

(Continued)

NOTE 6: LONG-TERM DEBT (Continued)	2004	2003
Note payable to GMAC, secured by vehicle, original amount of $31,484, monthly payments of $525, non-interest bearing, maturing July 2007	19,415	25,712
Note payable to GMAC, secured by vehicle, original amount of $25,827, monthly payments of $430, non-interest bearing, maturing July 2007	15,927	21,092
	1,984,287	2,039,321
Less current portion	299,606	293,179
Total long-term debt	$ 1,684,681	$1,746,142

The following is a summary of payments on long-term debt to maturity:

Year Ending June 30,	
2005	$ 299,606
2006	107,316
2007	105,864
2008	90,727
2009	94,191
Thereafter	1,286,583
	$1,984,287

NOTE 7: SETTLEMENT AGREEMENT

During the year ended June 30, 2002, the Center entered into an agreement to settle a complaint filed by a former employee alleging that MMERCI failed to provide sufficient COBRA notice and plan documents under ERISA. As part of the settlement agreement, MMERCI is required to make 72 monthly payments of $500 through April 2008 for past medical expenses not covered by the employee's insurance. MMERCI also agreed to make 52 monthly payments of $100 through September 2006 for related attorney fees. MMERCI further agreed to reimburse expenses incurred subsequent to the date of the agreement through April 2007 for additional medical services related to a specific pre-existing medical condition not covered by the employee's current or future health insurance provider. Reimbursements for additional medical expenses are limited to a maximum of $700 per month, not to exceed a total of $25,000. Because of the death of the former employee in 2004, the medical reimbursement portion of the settlement agreement has lapsed.

NOTE 8: ECONOMIC DEPENDENCY

The Organization receives a substantial portion of its revenue from certain government agencies and quasi-governmental providers. The following is a summary of revenues earned during June 30, 2004 and 2003 and the accounts receivable from these agencies as of June 30, 2004 and 2003:

	2004		
	Amount	% of Revenue	Accounts Receivable
State of Arizona Department of Education	$ 297,169	11	$ 4,300
State of Arizona Department of Economic Security	129,063	5	23,864
State of Arizona Department of Juvenile Corrections	391,708	14	35,476
Value Options/AZ Regional Behavioral Health Authority	577,867	21	117,374

	2003		
	Amount	% of Revenue	Accounts Receivable
State of Arizona Department of Education	$ 469,104	13	$ 21,195
State of Arizona Department of Economic Security	334,189	7	37,662
State of Arizona Department of Juvenile Corrections	214,202	5	4,680
Value Options/AZ Regional Behavioral Health Authority	982,300	22	310,990

NOTE 9: LEASE COMMITMENTS

The Center leases the Pennywise store and office equipment under noncancellable operating leases expiring through February 2007. The agreements require monthly payments of approximately $7,397.

The minimum lease payments required under these operating lease commitments are as follows:

Year Ending June 30,	
2005	$ 89,483
2006	74,542
2007	42,631
	$ 206,656

NOTE 10: RETIREMENT PLANS

The Center maintains a 401(k) plan covering all eligible full-time employees. Employees are eligible after reaching the age of 21 and completing three months of service. The assets of the plan are held in separate trusts established by the Center. Contributions to the plan are made by the participants to their individual accounts through a salary reduction agreement. The plan provides for an employer matching contribution of the participants' bi-weekly contribution to be determined each pay period. The Center's contribution was $11,338 and $21,102 for the years ended June 30, 2004 and 2003, respectively, and is included in the statements of functional expenses under payroll taxes and employee benefits. Employees of the Academy who participate in the Arizona State Retirement System are not eligible to participate in the 401(k) plan. Effective February 1, 2004, the 401(k) plan administration and contributions were transferred to Sequel.

Permanent full-time and certain part-time employees of the Academy participate in a cost-sharing multi-employer defined benefit pension plan administered by the Arizona State Retirement System (System). Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The Arizona State Legislature establishes and may amend active plan members' and the employers' contribution rates. Active plan members and the Academy are each required by statute to contribute at the actuarially determined rate. The rate for 2004 was 5.70% (5.2% for retirement and .5% for long-term disability) of the members' annual covered payroll. The 2003 rate was 2.49% (2% for retirement and .49% for long-term disability). The Academy's contributions to the system were $10,805 and $7,876 for the years ended June 30, 2004 and 2003, respectively, which are included in payroll taxes and employee benefits in the statements of functional expenses.

NOTE 11: MANAGEMENT SERVICE AGREEMENT

Effective February 1, 2004, Sequel Youth Services of Arizona, LLC began operating the Organization under a Management Services Agreement with a twenty year term. All Organization employees became Sequel employees on that date. MMERCI continues to own the real property, but has granted Sequel an option to purchase it. Sequel provides management services for both program and administrative functions, including accounting, billing, collections, cash management, audit, computers and regulatory filings. Sequel assumed responsibility for earned but unused benefits accrued by Organization employees and has permitted rollovers into its 401(k) plan.

(Continued)

NOTE 11: MANAGEMENT SERVICE AGREEMENT (continued)

As compensation, Sequel is entitled to all revenues of the Organization's programs less debt service payments on existing debt, costs of capital expenditures, property and casualty insurance on property owned by the Organization, annual audit costs, costs for filing tax returns, costs of directors meetings, corporation filing fees, and other costs and expenses mutually agreed upon. During the year ended June 30, 2004, Sequel advanced $230,546 for payroll, benefits and certain expenses. Management fees for the year totaled $1,055,795. At the end of the year, the Organization owed $785,862 to Sequel.

NOTE 12: NET ASSETS

Temporarily restricted net assets consist of unused Arizona tax credit revenues for extracurricular fees paid to public schools. Permanently restricted net assets consist of endowment funds restricted by the donors in perpetuity.

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Name	Address	City	State	Zip
Don Cross	77 E Missouri #1	Phoenix	Arizona	85012
Jan Cross	77 E Missouri #1	Phoenix	Arizona	85012
Donald Larkin	6973 W Firebird Drive	Glendale	Arizona	85308
Mary Sue Larkin	6973 W Firebird Drive	Glendale	Arizona	85308
Chris Maple	4358 W Kimberly Way	Glendale	Arizona	85308
Timothy Peterson	2449 E Chamber Street	Phoenix	Arizona	85040
Marilynn Czerny	902 W Glendale Ave #115	Phoenix	Arizona	85021
Christine Forakis	7130 E Saddleback House #2	Mesa	Arizona	85207
Michael Forakis	7130 E Saddleback House #2	Mesa	Arizona	85207

9. FINANCIAL DISCLOSURE (A.R.S. §10-11622.A.9)
Nonprofit corporations **must attach** a financial statement (e.g. income/expense statement, balance sheet including assets, liabilities). All other forms of corporations are exempt from filing a financial disclosure.

9A. MEMBERS (A.R.S. § 10-11622.A.6)

Only Nonprofit Corporations must answer this question.

This corporation **DOES ☐ DOES NOT ☒** have members.

10. CERTIFICATE OF DISCLOSURE (A.R.S. §§10-1622.A.8 & 10-11622.A.7)
Has ANY person serving either by election or appointment as an officer, director, trustee, incorporator and/or person controlling or holding more than 10% of the issued and outstanding common shares or 10% of any other proprietary, beneficial or membership interest in the corporation been: **(Underlined portion pertains to business corporations only)**

1. Convicted of a felony involving a transaction in securities, consumer fraud or antitrust in any state or federal jurisdiction within the seven year period immediately preceding the execution of this certificate?
2. Convicted of a felony, the essential elements of which consisted of fraud, misrepresentation, theft by false pretenses or restraint of trade or monopoly in any state or federal jurisdiction within the seven year period immediately preceding execution of this certificate?
3. Or are subject to an injunction, judgment, decree or permanent order of any state or federal court entered within the seven year period immediately preceding execution of this certificate where such injunction, judgment, decree or permanent order involved the violation of:
   (a) fraud or registration provisions of the securities laws of that jurisdiction, or
   (b) the consumer fraud laws of that jurisdiction, or
   (c) the antitrust or restraint of trade laws of that jurisdiction?

One box **must** be marked: **YES ☐ NO ☒**

If "YES", the following information must be submitted as an attachment to this report for each person subject to one or more of the actions stated in items 1. through 3. above.

1. Full name and prior names used.
2. Full birth name.
3. Present home address.
4. Prior addresses (for immediate preceding 7 year period).
5. Date and location of birth.
6. Social Security Number
7. The nature and description of each conviction or judicial action; the date and location; the court and public agency involved, and the file or cause number of the case.

11. STATEMENT OF BANKRUPTCY, RECEIVERSHIP or CHARTER REVOCATION (A.R.S. §§10-202.D.2, 10-3202.D.2, 10-1623 & 10-11623)

A) Has the corporation filed a petition for bankruptcy or appointed a receiver? One box **must** be marked: **YES ☐ NO ☒**

B) Has any person serving as an officer, director, trustee or incorporator of the corporation served in any such capacity OR held or controlled over 20% of the issued and outstanding common shares, or 20% of any other proprietary, beneficial or membership interest in any other corporation which has been placed in bankruptcy, receivership or had its charter revoked, or administratively or judicially dissolved by any state or jurisdiction?

[Underlined portion pertains to business corporations only] One box **must** be marked: **YES ☐ NO ☒**

If "YES" to A and/or B, the following information must be submitted as an attachment to this report for each person subject to the statement above.

1. The names and addresses of each corporation and the person or persons involved. (e.g. officer, director, trustee or major stockholder)
2. The state in which each corporation was a) incorporated b) transacted business.
3. The dates of corporate operation.
4. If any involved person (listed in #1) has been involved in any other bankruptcy proceeding within the past year, the name and address of each corporation.
5. Date, Case number and Court where the bankruptcy was filed or receiver appointed.
6. Name and address of court appointed receiver.

12. SIGNATURES: Annual Reports must be signed and dated by at least one duly authorized officer or they will be rejected.

I declare, under penalty of law that all corporate income tax returns required by Title 43 of the Arizona Revised Statutes have been filed with the Arizona Department of Revenue. I further declare under penalty of law that I (we) have examined this report and the certificate, including any attachments, and to the best of my (our) knowledge and belief they are true, correct and complete.

Name Don Larkin Date 2-5-05 Name Sue Larkin Date 2-5-05

Signature Donald Larkin Signature Mary Sue Larkin

Title Chairman Title Secretary

(Signator(s) must be duly authorized corporate officer(s) listed in section 7 of this report.)