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

AZ Corp. Commission
02295355

DUE ON OR BEFORE 01/30/2008 **FY07-08** **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 86312

RECEIVED
JAN 28 2008
ARIZONA CORP. COMMISSION
CORPORATIONS DIVISION

Business Phone: (602) 335-2000 (Business phone is optional.)

State of Domicile: ARIZONA **Type of Corporation:** NON-PROFIT

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:

ACC USE ONLY
Fee $_____
Penalty $_____
Reinstate $_____
Expedite $_____
Resubmit $_____

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 compiete 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/Finance
__ 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. ✓ 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)
None		

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)
None		

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 Type or Print Clearly.**

Name: _____ **Name:** _____

NONE ☒

Name: _____ **Name:** _____

7. OFFICERS **Please Type or Print Clearly. You Must List at Least One.**

Name: Timoth Peterson
Title: President
Address: 2449 E. Chamber Street
Phoenix, AZ 85040
Date taking office: 12/6/95

Name: Mary Sue LarKin
Title: Secretary
Address: 6973 W. Firebird Dr.
Glendale, AZ 85308
Date taking office: 12/6/95

Name: Don Cross
Title: Treasurer / Vice-President
Address: 77 E. Missouri #1
Phoenix, AZ 85012
Date taking office: 11/8/05

Name: Donald LarKin
Title: Chairman
Address: 6973 W. Firebird Dr.
Glendale, AZ 85308
Date taking office: 12/6/95

8. DIRECTORS **Please Type or Print Clearly. You Must List at Least One.**

Name: See Attached List
Address: _____
Date taking office: _____

Name: _____
Address: _____
Date taking office: _____

Name: _____
Address: _____
Date taking office: _____

Name: _____
Address: _____
Date taking office: _____

MMERCI BOARD OF DIRECTORS
AS OF OCTOBER 15, 2007

Don Cross
Home: 77 E. Missouri #1
Phoenix Arizona 85012
(602) 266-2406 (phone)
(602) 266-2405 (fax)
Jancross1@cox.net

Business: Cross & Lieberman
(602) 650-2858 (phone)
(602) 650-2857 (fax)
Cross@crosslieb.com

Marilynn Czerny and Tim Peterson
Home: 3844 E. Vineyard Rd.
Phoenix AZ 85042
(602) 437-9005 (phone)
(602) 739-5195 (cell)
Mocean66@aol.com
(for Board use only)

Tim's Business
American Filter & Equipment Corp
2449 E. Chambers St.
Phoenix AZ 85040
(602) 323-9110 (phone)
(602) 323-9116 (fax)
(602) 768-2355 (cell)
PhxFilters@aol.com

Christine (Goodson) Forakis
Business: Goodson, Manley,
Forakis & Deloughery, P.L.C.
340 E Palm Lane Suite 300
Phoenix AZ 85004
(602) 252-5110 office Cell:(602)-317-7283
cforakis@gmdlaw.com

Mike Forakis
Business: Coca-Cola Enterprises
7130 E. Saddleback Rd. Ste. 2
Mesa AZ 85207
Office: (480) 503-8262
Cell: (602) 418-6199
mforakis@na.cokecce.com

Don and Sue Larkin
Home: 6973 W. Firebird Dr.
Glendale AZ 85308
(623) 362-8976

Business: Larkin & Associates
14997 W. Bell Rd. Suite 100
Surprise AZ 85373
(623) 972-6155 (ph)
(623) 972-6123 (fax)
larkind@financialnetwork.com
larkins@financialnetwork.com

Chris Maple
4356 W. Kimberly Way
Glendale AZ 85308
(623) 581-2390
clmaple@cox.net

Business:
(602) 797-6354
Cell: (602) 525-3807
christine.maple@acs-inc.com
(Use this email)

KAISER & CAROLIN, P.C.

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

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Mingus Mountain Estate Residential Center, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Mingus Mountain Estate Residential Center, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Mingus Mountain Estate Residential Center, Inc.'s management. Our responsibility is to express an opinion on Mingus Mountain Estate Residential Center, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mingus Mountain Estate Residential Center, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Mingus Mountain Estate Residential Center, Inc.'s compliance with those requirements.

In our opinion, Mingus Mountain Estate Residential Center, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

8767 E. Via de Ventura • Suite 270 • Scottsdale, AZ 85258 (480) 922-7074 Office • (480) 275-3404 Fax • kccpas.com
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Internal Control Over Compliance

The management of Mingus Mountain Estate Residential Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Mingus Mountain Estate Residential Center, Inc.'s control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mingus Mountain Estate Residential Center, Inc.'s internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors, others within the entity, the Arizona Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kaiser & Carolin, P.C.

Kaiser & Carolin, P.C.
Scottsdale, Arizona

January 9, 2008

MINGUS MOUNTAIN ESTATE
RESIDENTIAL CENTER, INC.

Audited Financial Statements
June 30, 2007 and 2006

Kaiser & Carolin, P.C.
Certified Public Accountants

KAISER & CAROLIN, P.C.

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 statements of financial position of Mingus Mountain Estate Residential Center, Inc. (a nonprofit organization) as of June 30, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the 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 Mingus Mountain Estate Residential Center, Inc. as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2008, on our consideration of Mingus Mountain Estate Residential Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kaiser & Carolin, P.C.
Kaiser & Carolin, P.C.
Scottsdale, Arizona
January 9, 2008

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MINGUS MOUNTAIN ESTATE RESIDENTIAL CENTER, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007 AND 2006

ASSETS

	2007	2006
CURRENT ASSETS:		
Cash	$ 40,484	$ 21,642
Accounts receivable, net of allowance of $12,136	1,381,593	886,753
Total current assets	1,422,077	908,395
PROPERTY AND EQUIPMENT, NET	2,721,089	2,745,912
ENDOWMENT INVESTMENTS	29,854	29,762
OTHER ASSETS	-	10,944
Total assets	$ 4,173,020	$ 3,695,013

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	$ 134,153	$ 61,387
Due to Sequel Youth Services of Arizona, LLC	636,064	169,129
Current portion of long-term debt	59,146	85,361
Current portion of settlement agreement	5,000	7,200
Total current liabilities	834,363	323,077
LONG-TERM DEBT, net of current portion	2,378,991	2,429,636
SETTLEMENT AGREEMENT, net of current portion	-	4,700
ANNUITY FUND LIABILITIES	28,896	32,897
Total liabilities	3,242,250	2,790,310
NET ASSETS:		
Unrestricted	900,916	868,710
Temporarily restricted	-	6,231
Permanently restricted	29,854	29,762
Total net assets	930,770	904,703
	$ 4,173,020	$ 3,695,013

See notes to financial statements.

MINGUS MOUNTAIN ESTATE RESIDENTIAL CENTER, INC.

STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2007 AND 2006

	2007				2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC AND OTHER SUPPORT:								
Governmental agencies	$ 8,651,598	$ 53,154	$ -	$ 8,704,752	$ 6,800,262	$ 23,902	$ -	$ 6,824,164
Contributions	176,195	35,532	-	211,727	305,283	18,025	-	323,308
Store income	232,785	-	-	232,785	229,287	-	-	229,287
Dividend and interest income	-	-	1,405	1,405	-	-	1,348	1,348
Unrealized gain (loss) on investments	-	-	(94)	(94)	-	-	(1,868)	(1,868)
Miscellaneous income	43,219	-	-	43,219	59,069	-	-	59,069
Total public and other support	9,103,797	88,686	1,311	9,193,794	7,393,901	41,927	(520)	7,435,308
FUNCTIONAL EXPENSES:								
Residential facilities	7,251,892	-	-	7,251,892	5,682,950	-	-	5,682,950
Education and support	684,148	-	-	684,148	564,704	-	-	564,704
General and administrative	992,796	-	-	992,796	610,749	-	-	610,749
Total functional expenses	8,928,836	-	-	8,928,836	6,858,403	-	-	6,858,403
DEPRECIATION AND AMORTIZATION	238,891	-	-	238,891	194,655	-	-	194,655
INCREASE (DECREASE) IN NET ASSETS	(63,930)	88,686	1,311	26,067	340,843	41,927	(520)	382,250
NET ASSETS, beginning of year	868,710	6,231	29,762	904,703	469,521	22,650	30,282	522,453
NET ASSETS RELEASED FROM RESTRICTIONS	96,136	(94,917)	(1,219)	-	58,346	(58,346)	-	-
NET ASSETS, end of year	$ 900,916	$ -	$ 29,854	$ 930,770	$ 868,710	$ 6,231	$ 29,762	$ 904,703

See notes to financial statements

MINGUS MOUNTAIN ESTATE RESIDENTIAL CENTER, INC

STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006

	2007				2006			
	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	$ -	$ 412,642	$ -	$ 412,642	$ -	$ 420,320	$ -	$ 420,320
Payroll taxes and employee benefits	-	72,437	-	72,437	-	71,612	-	71,612
Total	-	485,079	-	485,079	-	491,932	-	491,932
Bad debts	13,687	-	-	13,687	-	-	-	-
Board expenses	-	-	481	481	-	-	-	-
Dues and subscriptions	-	820	-	820	-	-	-	-
Equipment and horses	-	60,122	-	60,122	-	44,117	-	44,117
Equipment rental	-	-	-	-	-	-	-	-
Facilities	-	61,200	-	61,200	-	-	-	-
Food	-	49,701	-	49,701	-	-	-	-
Insurance	-	-	2,500	2,500	-	-	2,500	2,500
Interest	188,947	-	10,764	199,711	197,700	-	11,263	208,963
Management fees	7,049,258	-	732,239	7,781,497	5,485,250	-	569,778	6,055,028
Other administrative	-	-	195,142	195,142	-	-	-	-
Postage	-	269	-	269	-	-	-	-
Professional fees	-	-	50,470	50,470	-	8,431	25,195	33,626
Repairs and maintenance	-	695	-	695	-	-	-	-
School supplies and equipment	-	20,880	-	20,880	-	-	-	-
Staff training and seminars	-	1,650	-	1,650	-	1,963	-	1,963
Supplies	-	-	-	-	-	18,261	1,852	20,113
Taxes and licenses	-	1,050	-	1,050	-	-	-	-
Telephone	-	-	1,200	1,200	-	-	161	161
Utilities	-	2,682	-	2,682	-	-	-	-
Total functional expenses	$ 7,251,892	$ 684,148	$ 992,796	8,928,836	$ 5,682,950	$ 564,704	$ 610,749	$ 6,858,403

See notes to financial statements

MINGUS MOUNTAIN ESTATE RESIDENTIAL CENTER, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from governmental agencies and other	$ 8,251,190	$ 6,803,381
Cash received from unrestricted contributions and store	408,980	534,570
Cash received from temporarily restricted contributions	35,532	18,025
Dividends and interest received	1,405	1,348
Cash paid for program expenses	(7,430,288)	(6,868,552)
Cash paid for administration	(754,395)	(450,607)
Interest paid	(199,710)	(208,963)
Net cash provided (used) by operating activities	312,714	(170,798)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Repayments of annuity fund liabilities	(7,184)	(7,247)
Purchases of property and equipment	(214,064)	(546,370)
Proceeds from sale of property and equipment	2,500	-
Change in permanently restricted investments	521	(1,348)
Net cash used by investing activities	(218,227)	(554,965)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	-	2,600,000
Repayment of long-term debt	(75,645)	(1,974,402)
Net cash provided (used) by financing activities	(75,645)	625,598
NET INCREASE (DECREASE) IN CASH	18,842	(100,165)
CASH, beginning of year	21,642	121,807
CASH, end of year	$ 40,484	$ 21,642

Continued

See notes to financial statements.

MINGUS MOUNTAIN ESTATE RESIDENTIAL CENTER, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

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

(Continued)

	2007	2006
Increase in net assets	$ 26,067	$ 382,250
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	238,891	194,655
Loss on sale of property and equipment	1,941	-
Unrealized (gain) loss on investments	94	1,868
Change in value of annuity fund liabilities	(3,184)	901
Increase (decrease) in:		
Accounts receivable	(494,840)	(80,753)
Other assets	10,944	16,792
Increase (decrease) in:		
Accounts payable	72,766	61,387
Due to Sequel Youth Services of Arizona, LLC	466,935	(741,298)
Settlement agreement payable	(6,900)	(6,600)
Net cash provided (used) by operating activities	$ 312,714	$ (170,798)

See notes to financial statements.

MINGUS MOUNTAIN ESTATE RESIDENTIAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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, North and South Dakota, Minnesota, U.S. Virgin Islands 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.

Effective February 1, 2004, Sequel Youth Services of Arizona, LLC (Sequel) 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.

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)

Financial Statements

The 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.

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 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.

Schedule of Federal Awards

The schedule of expenditures of federal awards includes the federal grant activity of the Center as is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore some amounts presented in the schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

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 year ended June 30, 2007 there were no amounts recorded for contributed services and materials. For the year ended June 30, 2007, contributed materials totaled $7,500.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Concentration of Credit Risk

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

The Organization received a substantial portion of its revenue from certain government agencies and quasi-governmental providers. Approximately 41% of its revenues for the year ended June 30, 2007 and 61% of its accounts receivable were attributable to the Arizona Regional Behavioral Health Authorities.

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	30 years
Furniture and office equipment	5 – 7 years
Machinery and equipment	5 – 7 years
Building and land improvements	15 – 30 years
Vehicles	5 years
School equipment	5 – 7 years

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statements of financial position. Unrealized gains and losses are included in the 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, 2007 and 2006 was not material to the financial statements.

Reclassifications

Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

NOTE 2: PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2007 and 2006:

	2007	2006
Buildings	$2,399,240	$ 2,389,090
Land	370,064	370,064
Furniture and office equipment	238,341	197,582
Machinery and equipment	75,242	152,239
Land and building improvements	795,637	763,922
Vehicles	326,119	307,668
	4,204,643	4,180,565
Less: accumulated depreciation	1,483,554	1,434,653
Property and equipment, net	$ 2,721,089	$ 2,745,912

NOTE 3: 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:

	2007		2006	
	Cost	Fair Market Value	Cost	Fair Market Value
Money market funds	$ 2,554	$ 2,554	$ 2,342	$ 2,342
Mutual funds	12,000	11,207	12,000	11,017
Corporate bonds	17,560	16,093	17,560	16,403
	$ 32,114	$ 29,854	$ 30,907	$ 29,762

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

	2007		
	Unrestricted	Permanently Restricted	Total
Dividends and interest income	$ 1,405	$ -	$ 1,405
Unrealized loss on investments	-	(94)	(94)
	$ 1,405	$ (94)	$ 1,311

	2006		
	Unrestricted	Permanently Restricted	Total
Dividends and interest income	$ 1,348	$ -	$ 1,348
Unrealized gain on investments	-	(1,868)	(1,868)
	$ 1,355	$ (1,868)	$ (520)

NOTE 4: LONG-TERM DEBT

Long-term debt consists of the following:

	2007	2006
Note payable to Wells Fargo Bank, original amount of $2,600,000, secured by deed of trust on land and buildings, monthly payments of $4,952 plus interest at prime, maturing October 2015. The interest rate at June 30, 2007 was 8.25%	$ 2,433,985	$ 2,485,287
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	-	9,298
Note payable to GMAC, secured by vehicle, original amount of $23,985, monthly payments of $400, non-interest bearing, maturing March 2008	1,226	7,995
Note payable to GMAC, secured by vehicle, original amount of $31,484, monthly payments of $525, non-interest bearing, maturing July 2007	1,609	6,822
Note payable to GMAC, secured by vehicle, original amount of $25,827, monthly payments of $430, non-interest bearing, maturing July 2007	1,317	5,595
	2,438,137	2,514,997
Less current portion	59,146	85,361
Total long-term debt	$2,378,991	$ 2,429,636

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

Year Ending June 30,	
2008	$ 59,146
2009	61,658
2010	66,677
2011	72,661
2012	78,649
Thereafter	2,099,346
	$ 2,438,137

NOTE 5: CHARITABLE GIFT ANNUITIES

During the years ended June 30, 2007 and 2006, the Center agreed to pay the donors aggregate quarterly payments of $1,671 and $1,804, respectively, for the remainder of the donors' lives. The change in the value of these split-interest agreements was $3,184 and $901 for the years ended June 30, 2007 and 2006, respectively.

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, 2006 and 2005, payments to the donors were $6,684 and $7,247, respectively.

NOTE 6: 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.

NOTE 7: NET ASSETS

Permanently restricted net assets consist of endowment funds restricted by the donors in perpetuity.

NOTE 8: LEASE COMMITMENTS

The Center leases the Pennywise store on an operating lease which commenced on March 28, 1992 and has been renewed through February 10, 2010. The agreement requires monthly payments of approximately $6,700. Total rent expense was $74,717 and $73,126 for the years ended June 30, 2007 and 2006, respectively. Although the tenant on the lease is Mingus Mountain Estate Residential Center, Inc., Sequel pays the monthly rent. The remaining minimum lease payments required under this operating lease are as follows:

Year Ending June 30,	
2008	$ 61,597
2009	63,771
2010	43,480
	$ 168,848

NOTE 9: RETIREMENT PLANS

Sequel Youth Services of Arizona, LLC maintains a 401(k) plan covering all eligible full-time MMERCI 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 $35,383 and $35,227 for the years ended June 30, 2007 and 2006, respectively. The contributions are included in management fees. Employees of the Academy who participate in the Arizona State Retirement System are not eligible to participate in the 401(k) plan.
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 2005 - 2006 was 7.40% (6.9% for retirement and .5% for long-term disability) of the members' annual covered payroll. The 2006 – 2007 rate was 9.1% (8.6% for retirement and .5% for long-term disability). The Academy's contributions to the system were $33,140 and $30,282 for the years ended June 30, 2007 and 2006, respectively, which are included in payroll taxes and employee benefits in the statements of functional expenses.

NOTE 10: MANAGEMENT SERVICE AGREEMENT

As compensation for its services through June 30, 2007, Sequel Youth Services of Arizona, LLC was entitled to all revenues of the Organization's programs less donations and bequests, 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. Management fees for the years ended June 30, 2007 and 2006 totaled $7,781,497 and $6,055,028, respectively. At June 30, 2007 and 2006, the Organization owed $636,064 and $169,129, respectively, to Sequel.

NOTE 10: MANAGEMENT SERVICE AGREEMENT (Continued)

Effective June 30, 2007, the 2004 Sequel Management Service Agreement was terminated. A new agreement commenced July 1, 2007 with an initial term of ten years. Sequel will receive compensation of $266.40 per student day, with adjustments made annually. Sequel will also receive fifteen percent of additional income with the following exceptions: donations and bequests; investment income; revenues obtained from borrowing; revenues from new programs; revenue precluded by law or program's guidelines from paying Sequel for services rendered; revenue precluded by contract with the revenue provider from paying Sequel for services rendered; insurance proceeds and condemnation awards attributable to the business of or property owned by MMERCI; and, any other revenue that was not provided or received for the operation of MMERCI's juvenile community residential program or the improvement or maintenance of its property or facilities. For this compensation, Sequel will pay all costs and expenses of operating the MMERCI program, other than costs associated with ownership, improvement or maintenance of facilities or equipment and including staff salaries, supplies and other expenses incurred in the normal operation of the program.

MINGUS MOUNTAIN ESTATE RESIDENTIAL CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-through Grantor/Program	Federal CFDA #	Federal Expenditures
U.S. Department of Health and Human Services:		
Pass-through programs from:		
Arizona Department of Economic Security		
Temporary Assistance for Needy Families	93.558	$ 113,750
Foster Care Title IV-E	93.658	210,596
Social Services Block Grant	93.667	167,537
Total U.S. Department of Health and Human Services:		491,883
U.S. Department of Agriculture		
Pass-through programs from:		
Arizona Department of Education		
National School Lunch Program	10.555	149,104
U.S. Department of Education		
Pass-through programs from:		
Arizona Department of Education		
IDEA-B Special Education	84.027	17,087
Title II Improving Teacher Quality	84.367	3,530
Title V Part A Innovative Programs	84.298	46
Total U.S. Department of Education		20,663
Total Expenditures of Federal Awards		$ 661,650

See notes to financial statements.

MINGUS MOUNTAIN ESTATE RESIDENTIAL CENTER, INC.

STATEMENTS OF ACTIVITIES - MINGUS MOUNTAIN ACADEMY
YEARS ENDED JUNE 30, 2007 AND 2006

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
PUBLIC AND OTHER SUPPORT:						
Governmental agencies	$ 815,328	$ 53,154	$ 868,482	$ 690,415	$ 23,902	$ 714,317
Extracurricular program donations	-	35,532	35,532	-	13,825	13,825
Other	-	-	-	4,200	-	4,200
Total public and other support	815,328	88,686	904,014	694,615	37,727	732,342
FUNCTIONAL EXPENSES:						
Education and support	684,148	-	684,148	564,704	-	564,704
DEPRECIATION AND AMORTIZATION	52,881	-	52,881	52,928	-	52,928
INCREASE IN NET ASSETS	78,299	88,686	166,985	76,983	37,727	114,710
NET ASSETS, beginning of year	(412,230)	6,231	(405,999)	(520,709)	-	(520,709)
NET ASSETS RELEASED FROM RESTRICTIONS	94,917	(94,917)	-	31,496	(31,496)	-
NET ASSETS, end of year	$ (239,014)	$ -	$ (239,014)	$ (412,230)	$ 6,231	$ (405,999)

See notes to financial statements.

KAISER & CAROLIN, P.C.

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of Mingus Mountain Estate Residential Center, Inc. as of and for the year ended June 30, 2007, and have issued our report thereon dated January 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mingus Mountain Estate Residential Center, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mingus Mountain Estate Residential Center, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Mingus Mountain Estate Residential Center, Inc. in a separate letter dated January 9, 2008.

This report is intended solely for the information and use of management, the board of directors, others within the entity, the Arizona Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kaiser & Carolin, P.C.
Kaiser & Carolin, P.C.
Scottsdale, Arizona

January 9, 2008

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 _____ **Date** _____ **Name** J. Donald Larkin **Date** 1/11/08

Signature _____ **Signature** J. Donald Larkin

Title _____ **Title** Chairman

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