Consolidated Financial Statements
September 30, 2019 and 2018

Marc Community Resources, Inc. and Affiliates

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Independent Auditor's Report

The Board of Directors
Marc Community Resources, Inc. and Affiliates
Mesa, Arizona

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Marc Community Resources, Inc. and Affiliates (collectively, the Organization), which comprise the consolidated statements of financial position as of September 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Marc Community Resources, Inc. and Affiliates as of September 30, 2019 and 2018, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedules on pages 29-32 are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Eide Bailly LLP

Phoenix, Arizona
September 25, 2020

Marc Community Resources, Inc. and Affiliates

Consolidated Statements of Financial Position

September 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 8,768,910	$ 14,495,387
Consumer trust funds	74,196	43,685
Accounts receivable, net	4,007,169	2,137,552
Contributions receivable	9,219	132,446
Prepaid expenses and other	295,989	325,387
Investments	3,942,280	426,340
Investments in affiliates	14,391	14,391
Certificates of deposit	-	253,976
Property and equipment, net	27,250,374	28,390,888
Goodwill, less accumulated amortization of $640,254 and $320,127, respectively	2,561,018	2,881,145
Deposits	501,684	330,617
Total assets	$ 47,425,230	$ 49,431,814
Liabilities and Net Assets		
Liabilities		
Consumer trust funds	$ 74,196	$ 43,685
Accounts payable	1,029,069	725,179
Accrued liabilities	5,477,563	5,141,669
Deferred revenue	487,525	1,973,584
Deferred rent	686,591	799,448
Lease incentive obligation, net	307,692	360,439
Derivative financial instrument: interest rate swap	714,237	106,206
Notes payable	1,058,785	1,149,984
Bonds payable, less unamortized bond issuance costs of $294,953 and $304,701, respectively	12,213,622	12,530,444
Total liabilities	22,049,280	22,830,638
Net Assets		
Without donor restrictions	19,499,161	20,890,625
With donor restrictions	5,876,789	5,710,551
Total net assets	25,375,950	26,601,176
Total liabilities and net assets	$ 47,425,230	$ 49,431,814

	2019		
	Without donor Restrictions	With Donor Restrictions	Totals
Revenue, Support and Gains			
Governmental			
Arizona Department of Economic Security	$ 12,869,190	$ -	$ 12,869,190
Arizona Department of Health Services	50,538,028	-	50,538,028
City of Mesa	35,748	-	35,748
Total governmental revenue	63,442,966	-	63,442,966
Other			
Service contracts	469,571	-	469,571
Service fees	148,813	-	148,813
Contributions	384,313	205,625	589,938
Investment income	102,419	720	103,139
Loss on disposition of property and equipment	(33,768)	-	(33,768)
Rental income	845,967	-	845,967
Change in value of derivative financial instrument	(608,031)	-	(608,031)
Other	3,320,910	-	3,320,910
Total other revenue and gains	4,630,194	206,345	4,836,539
Net assets released from restrictions	40,107	(40,107)	-
Total revenue, support and gains	68,113,267	166,238	68,279,505
Expenses			
Program services			
Residential	7,284,520	-	7,284,520
Employment services	7,094,765	-	7,094,765
Day services	6,100,452	-	6,100,452
Home services	6,550,007	-	6,550,007
Other housing	516,943	-	516,943
Outpatient clinic	32,639,128	-	32,639,128
Total program services	60,185,815	-	60,185,815
Supporting activities			
Management and general	9,258,265	-	9,258,265
Fundraising	60,651	-	60,651
Total supporting activities	9,318,916	-	9,318,916
Total expenses	69,504,731	-	69,504,731
Change in Net Assets	(1,391,464)	166,238	(1,225,226)
Net Assets, Beginning of Year	20,890,625	5,710,551	26,601,176
Net Assets, End of Year	$ 19,499,161	$ 5,876,789	$ 25,375,950

	2018		
	Without Donor Restrictions	With Donor Restrictions	Totals
Revenue, Support and Gains			
Governmental			
Arizona Department of Economic Security	$ 13,447,173	$ -	$ 13,447,173
Arizona Department of Health Services	49,720,910	-	49,720,910
City of Mesa	29,730	-	29,730
Total governmental revenue	63,197,813	-	63,197,813
Other			
Service contracts	464,894	-	464,894
Service fees	213,703	-	213,703
United Way contributions	-	24,000	24,000
Contributions	362,823	16,107	378,930
Investment income	30,039	466	30,505
Loss on disposition of property and equipment	(71,730)	-	(71,730)
Rental income	854,150	-	854,150
Loss on investments in affiliates	(53,908)	-	(53,908)
Change in value of derivative financial instrument	89,484	-	89,484
Other	3,211,782	-	3,211,782
Total other revenue and gains	5,101,237	40,573	5,141,810
Net assets released from restrictions	235,133	(235,133)	-
Total revenue, support and gains	68,534,183	(194,560)	68,339,623
Expenses			
Program services			
Residential	6,987,083	-	6,987,083
Employment services	6,589,579	-	6,589,579
Day services	7,060,032	-	7,060,032
Home services	6,499,658	-	6,499,658
Other housing	594,768	-	594,768
Outpatient clinic	33,945,795	-	33,945,795
Total program services	61,676,915	-	61,676,915
Supporting activities			
Management and general	6,401,975	-	6,401,975
Fundraising	45,373	-	45,373
Total supporting activities	6,447,348	-	6,447,348
Total expenses	68,124,263	-	68,124,263
Operating Income	409,920	(194,560)	215,360
Loss on Refinancing	(158,856)	-	(158,856)
Change in Net Assets	251,064	(194,560)	56,504
Net Assets, Beginning of Year	20,639,561	5,905,111	26,544,672
Net Assets, End of Year	$ 20,890,625	$ 5,710,551	$ 26,601,176

See Notes to Consolidated Financial Statements

Marc Community Resources, Inc. and Affiliates

Consolidated Statements of Functional Expenses

Years Ended September 30, 2019 and 2018

	2019										
	Program Services							Supporting Activities			
	Residential	Employment Services	Day Services	Home Services	Other Housing	Outpatient Clinic	Total Program Services	Management and General	Fundraising	Total Supporting Activities	Total
Salaries	$ 4,760,847	$ 4,872,395	$ 3,928,972	$ 4,647,459	$ -	$ 21,067,351	$ 39,277,024	$ 3,879,619	$ 45,821	$ 3,925,440	$ 43,202,464
Employee-Related Expenses	757,634	776,724	738,473	736,922	-	3,831,221	6,840,974	995,308	8,824	1,004,132	7,845,106
Occupancy	647,695	220,063	483,625	219,349	234,081	2,686,196	4,491,009	339,306	1,343	340,649	4,831,658
Professional Fees	93,685	24,813	59,559	329,716	47,610	1,413,345	1,968,728	1,862,881	137	1,863,018	3,831,746
Transportation	353,327	238,219	258,086	126,323	16	787,182	1,763,153	124,706	(354)	124,352	1,887,505
Supplies	144,134	449,703	142,193	110,069	24,868	1,096,002	1,966,969	623,899	1,333	625,232	2,592,201
Equipment Rental	11,926	57,617	47,632	7,844	-	173,686	298,705	55,426	661	56,087	354,792
Depreciation	223,737	301,637	379,939	192,194	193,907	764,394	2,055,808	207,951	1,131	209,082	2,264,890
Other Expenses	291,535	153,594	61,973	180,131	16,461	819,751	1,523,445	1,169,169	1,755	1,170,924	2,694,369
Total expenses	$ 7,284,520	$ 7,094,765	$ 6,100,452	$ 6,550,007	$ 516,943	$ 32,639,128	$ 60,185,815	$ 9,258,265	$ 60,651	$ 9,318,916	$ 69,504,731

See Notes to Consolidated Financial Statements

Marc Community Resources, Inc. and Affiliates

Consolidated Statements of Functional Expenses

Years Ended September 30, 2019 and 2018

	2018										
	Program Services							Supporting Activities			
	Residential	Employment Services	Day Services	Home Services	Other Housing	Outpatient Clinic	Total Program Services	Management and General	Fundraising	Total Supporting Activities	Total
Salaries	$ 4,434,914	$ 4,507,733	$ 4,391,732	$ 4,342,706	$ -	$ 21,418,739	$ 39,095,824	$ 2,836,800	$ 31,562	$ 2,868,362	$ 41,964,186
Employee-Related Expenses	693,034	638,413	796,553	734,529	-	4,094,024	6,956,553	590,707	5,622	596,329	7,552,882
Occupancy	656,767	253,447	695,772	274,180	299,639	2,734,484	4,914,289	206,624	2,123	208,747	5,123,036
Professional Fees	181,484	51,138	69,037	546,750	45,500	1,887,193	2,781,102	932,584	248	932,832	3,713,934
Transportation	334,383	223,529	312,053	106,258	41	786,379	1,762,643	144,853	101	144,954	1,907,597
Supplies	155,703	357,200	165,427	117,690	7,803	406,867	1,210,690	425,935	698	426,633	1,637,323
Equipment Rental	14,294	66,572	48,227	9,920	-	249,838	388,851	42,963	915	43,878	432,729
Depreciation	221,049	316,060	445,880	189,880	208,420	772,960	2,154,249	171,550	1,787	173,337	2,327,586
Other Expenses	295,455	175,487	135,351	177,745	33,365	1,595,311	2,412,714	1,049,959	2,317	1,052,276	3,464,990
Total expenses	$ 6,987,083	$ 6,589,579	$ 7,060,032	$ 6,499,658	$ 594,768	$ 33,945,795	$ 61,676,915	$ 6,401,975	$ 45,373	$ 6,447,348	$ 68,124,263

	2019	2018
Operating Activities		
Change in net assets	$ (1,225,226)	$ 56,504
Adjustments to reconcile net assets to net cash (used for) from operating activities		
Interest expense attributable to unamortized bond issuance costs	9,748	12,697
Loss on refinancing	-	158,856
Net unrealized gain on investments	(30,807)	(697)
Change in value on derivative financial instruments	608,031	(89,484)
Net loss on investments in affiliates	-	53,908
Loss on disposition of property and equipment	33,768	71,730
Depreciation	2,264,890	2,327,586
Change in allowance for doubtful accounts	34,404	11,330
Amortization of lease incentive obligation	(52,747)	(39,561)
Amortization of goodwill	320,127	320,127
Change in assets and liabilities		
Accounts receivable	(1,904,021)	173,322
Due from related parties	-	95,780
Contributions receivable	123,227	2,997
Prepaid expenses and other	29,398	349,797
Deposits	(171,067)	(239,281)
Accounts payable	303,890	(278,344)
Accrued liabilities	335,894	906,000
Deferred revenue	(1,486,059)	(1,726,046)
Deferred rent	(112,857)	137,197
Leasehold incentive obligation	-	400,000
Net Cash (used for) from Operating Activities	(919,407)	2,704,418
Investing Activities		
Acquisition of assets of Partners in Recovery	-	(927,939)
Proceeds from notes receivable	-	16,782
Proceeds from sale of certificates of deposit	253,976	(1,140)
Proceeds from sale of investments	3,464,000	10,958
Purchases of investments	(6,949,133)	-
Proceeds from disposition of property and equipment	23,785	677,172
Purchases of property and equipment	(1,181,929)	(1,815,399)
Net Cash used for Investing Activities	(4,389,301)	(2,039,566)

	2019	2018
Financing Activities		
Proceeds from borrowings on notes payable	-	1,500,000
Payments on notes payable	(91,199)	(2,108,403)
Borrowing on line of credit	-	900,000
Payments on line of credit	-	(900,000)
Bond issuance costs	-	(308,993)
Issuance of bonds payable	-	12,942,000
Termination of bonds payable	-	(8,260,200)
Payments on bonds payable	(326,570)	(253,934)
Net Cash (used for) from Financing Activities	(417,769)	3,510,470
Net Change in Cash and Cash Equivalents	(5,726,477)	4,175,322
Cash and Cash Equivalents, Beginning of Year	14,495,387	10,320,065
Cash and Cash Equivalents, End of Year	$ 8,768,910	$ 14,495,387
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 631,989	$ 571,901
Acquisition of equipment through capital lease	$ -	$ 31,966
Supplemental Schedule of Investing Activities		
Acquisition of Partners in Recovery		
Cash acquired	$ -	$ 3,072,061
Accounts receivable	-	119,774
Prepaid expenses and other	-	321,689
Property and equipment	-	3,401,617
Goodwill	-	3,201,272
Accounts payable	-	(284,180)
Accrued liabilities	-	(2,101,624)
Deferred revenue	-	(1,667,760)
Deferred rent	-	(525,565)
Notes payable	-	(1,143,879)
Previously held equity interest remeasured at fair value	-	(393,405)
Cash paid	$ -	$ 4,000,000

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Operations

Marc Community Resources, Inc. and Affiliates (Marc Community) 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 Community provides services throughout primarily Maricopa County, Arizona. During the year ended June 30, 2010, Marc Community acquired Advocates for the Disabled, Inc. (Advocates) by an action by the Board of Directors of Advocates granting Marc Community the sole power to appoint directors to the Advocates' Board. During the year, Advocates changed their name to Copa Health, Inc.

TecMarc, Inc. (TecMarc) is an Arizona corporation and was incorporated in March 2008 to conduct the business of information technology sales and support and property management services. TecMarc has 1,000 shares of authorized common stock, all of which have been issued to Marc Community at $1 per share.

During 2018, The Foundation for People with Disabilities changed their name to The Marc Foundation (the Foundation). The Foundation is a nonprofit corporation, incorporated in the state of Arizona on January 29, 1988, to provide housing for disabled individuals in residential settings and employment training facilities throughout Maricopa County. Marc Community is the sole member of the Foundation's Board of Directors. During the year ended June 30, 2010, the Foundation transferred substantially all of its property to Marc Community.

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

The Village at Oasis Park — Phase II, Inc. (the Village II) is a nonprofit corporation and was incorporated in the state of Arizona in August 2010 to provide housing for disabled individuals. The Village II's Board of Directors consists of the Executive Committee of Marc Community and other individuals selected by the Executive Committee of Marc Community.

Partners in Recovery, LLC (Partners in Recovery) is a nonprofit organization formed under the laws of the state of Arizona in April 2009 as a limited liability company and has an infinite life. The Organization provides behavioral health case management, treatment, integrated physical care and support to adults with serious mental illnesses in Maricopa County, Arizona. The members of the Organization were Marc Community Resources, Inc. (Marc Community), Jewish Family and Children’s Service, Inc. (JFCS), and Recovery Innovations, Inc. (RII) dba RI International, each of which is a nonprofit corporation. As of October 6, 2017, Marc Community bought out the remaining equity partners and is now the sole member of the Organization.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Marc Community, Advocates, TecMarc, the Foundation, Partners in Recovery, the Village, and the Village II (collectively, the Organization). All significant inter-organization transactions have been eliminated in consolidation.

Change in Accounting Policy

As of July 1, 2018, the Organization adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities.* The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions). The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Organization's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Organization's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the consolidated statements of activities net of external and direct internal investment expenses.

The standard improves the usefulness and understandability of the financial statement reporting. Accordingly, the accompanying consolidated financial statements and related notes follow the net asset classification, presentation, and disclosure requirements prescribed by the ASU.

Cash and Cash Equivalents

Cash consists of cash, and at times, cash equivalents consisting of highly-liquid financial instruments purchased with original maturities of three months or less.

Receivables and Credit Policy

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectable 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. The Organization does not require collateral on accounts receivable balances and does not generally charge interest on past due balances. At September 30, 2019 and 2018, the allowance was approximately $95,000 and $66,000, respectively.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term nature of the items. The carrying value of contributions receivable due in more than one year is based on the discounted net present value of the expected future cash receipts and approximates fair value. The fair values of bonds and notes payable are based on the stated interest rates and approximate their carrying values.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and foundations supportive of the Organization's mission.

Property and Equipment

Purchased property and equipment over $5,000 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. 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. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended September 30, 2019 and 2018.

Goodwill

Goodwill represents costs in excess of purchase price over the fair value of the assets of businesses acquired, including other identifiable intangible assets. Goodwill is amortized on the straight-line method over a period of 10 years. Goodwill will be tested for impairment upon the occurrence of an event that would indicate that the fair value of the Organization is below its carrying value. As of September 30, 2019 and 2018, the carrying value of the Organization's goodwill was not considered impaired.

Deferred Revenue

Each month, the Organization receives block payment funding for behavioral health services from the Regional Behavioral Health Authority (RBHA) in Maricopa County. These funds are considered earned if total service claims generated equal or exceed the block payments. If service claims are insufficient, the RBHA has the contractual right to recoup the funding or characterize the deficiency as deferred revenue with an authorization to use the funding in the next fiscal year. For the years ended September 30, 2019 and 2018, the Organization has a service claim deficiency balance of approximately $488,000 and $1,974,000, respectively. This amount is classified as deferred revenue on the consolidated statements of financial position.

Deferred Rent

Certain leases require escalating rent payments over the lease term. The total rent payments are divided by the total number of months to compute an amount, which is charged to expense on a straight-line basis over the lease term. Deferred rent occurs when the monthly straight-line expense is greater than the monthly rent paid.

Lease Incentive Obligation

There are certain leases held by the Organization that have included provisions for lease incentives related to tenant improvement allowances. The funding for the purchase of leasehold improvements has been recorded as leasehold improvements, is included in property and equipment and is depreciated over the life of the lease. A corresponding liability has been recorded for the lease incentive obligation. This obligation is being amortized over the life of the lease with annual amortization being netted against rent expense.

Interest-Rate Swap

The Organization uses an interest-rate swap to mitigate interest-rate risk on bonds payable (Note 9). The related liability or asset is reported at fair value in the consolidated statements of financial position, and unrealized gains or losses are included in the consolidated statements of activities.

Self-Insurance Reserves

The Organization provides for self-insurance reserve for estimated incurred but not reported claims for its employee health plan. This reserve, which is included in accrued liabilities on the consolidated statements of financial position, is estimated based upon historical submission and payment data, cost trends, utilization history, and other relevant factors.

Adjustments to reserves are reflected in the operating results in the period in which the change in estimate is identified. At September 30, 2019 and 2018, amounts reserved for these claims totaled approximately $753,000 and $846,000, respectively.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specific by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a

stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

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, unless the likelihood that the Organization will not fulfill the conditions is remote, in which case the contribution is recognized when the promise is made.

Bond Issuance Costs

Bond issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which is a reasonable estimate of the effective interest method. Bond issuance costs are included within long-term debt in the consolidated statements of financial position. Amortization of bond issuance costs is included in other expense in the accompanying consolidated financial statements.

Advertising

The cost of advertising is expensed as incurred. Advertising expense for the years ended September 30, 2019 and 2018 totaled approximately $51,000 and $62,000, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and depreciation, which are allocated on a square footage basis, as well as salaries, employee-related expenses, professional fees, transportation, supplies, equipment rental and other, which are allocated on the basis of estimates of time and effort.

Income Tax Status

Marc Community, Advocates, the Foundation, the Village, the Village II, and Partners in Recovery, LLC are organized as Arizona nonprofit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). They qualify for charitable contributions under Section 170. Marc Community, Advocates, the Foundation and the Village have been determined not to be private foundations under Section 509(a)(2), 509(a)(1), 509(a)(3) and 509(a)(3), respectively. Management has determined the Village II is not a private foundation in accordance with Section 509(a)(3). The organizations are annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the organizations are subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Advocates, the Foundation, the Village and the Village II have determined they have no unrelated business taxable income and have not filed the Exempt Organization Business Income Tax Returns (IRS Form 990-T), or its Arizona equivalent, Form 99-T. Marc Community has unrelated business taxable income and has filed the Exempt Organization Business Income Tax Returns (IRS Form 990-T), and its Arizona equivalent, Form 99-T.

TecMarc accounts for income taxes under the liability method pursuant to income tax accounting guidance. Under the liability method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax basis of assets and liabilities using the enacted rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established against the deferred tax asset for the uncertainty of TecMarc's ability to use the net operating tax loss carryforwards in the future.

Management believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The organizations would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. Marc Community and TecMarc's income tax filings required by federal and state authorities are no longer subject to tax examination for years ending before September 30, 2016.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of ASU 2014-09 is that revenue should be recognized in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle, which may require the use of judgment and estimates. The Organization may adopt ASU 2014-09 either by using a full retrospective approach for all periods presented or a modified retrospective approach.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The update clarifies the guidance to distinguish between contributions and or exchange transactions.

These standards are effective for annual reporting periods beginning after December 15, 2019, or October 1, 2020 for the Organization. The Organization has not yet selected a transition method and is currently evaluating the impact of these standards on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the consolidated statements of financial position for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated statements of activities. The new standard is effective for the Organization beginning October 1, 2022. The Organization is currently assessing the impact of the adoption of the standard.

Note 2 - Liquidity and Availability

Financial assets at September 30, 2019 and 2018 available to meet cash needs for general expenditures within one year of the consolidated statement of financial position date are comprised of the following, which are free of internal and external restrictions:

	2019	2018
Cash	$ 8,768,910	$ 14,495,387
Accounts receivable, net	4,007,169	2,137,552
Investments	2,945,822	32,310
	$ 15,721,901	$ 16,665,249

The Organization manages their exposure to liquidity risk by regularly monitoring the liquidity required to meet operating needs and other contractual commitments. The Organization prepares annual budgets to manage liquidity and to determine general expenditures over the next 12 months and anticipates collecting revenue sufficient to cover general expenditures during that period. Investments in the amount of $996,458 and $394,030 for the years ended September 30, 2019 and 2018, respectively, are held for the non-qualified deferred compensation plan (the Non-Qualified 457b Plan) and are not available for general expenditures.

Note 3 - Conditional Promises to Give

During the years ended June 30, 2007 and 2006, the Organization received conditional promises to give as part of agreements with Value Options (Magellan replaced Value Options as the RBHA contracted for Maricopa County during the year ended June 30, 2008. Magellan was replaced by Mercy Maricopa Integrated Care during the year ended June 30, 2014). Under the 2007 agreement, unrestricted title to two single-family residences, with an estimated value of $607,000 at the date of the agreements, will be transferred to the Organization if certain conditions are met. Under the 2006 agreement, unrestricted title to one single-family residence, with an estimated value of $300,000 at the date of the agreement, will be transferred to the Organization if certain conditions are met. The condition for the transfer of title is that the Organization functions as landlord of the residences for a period of twenty-five years. During this period, the Organization will collect rent from the tenants and will be responsible for repairs and maintenance on the residences. Once all conditions have been met, the Organization will recognize the fair value of the property in the consolidated financial statements.

Note 4 - Business Combination

On October 6, 2017, Marc Community completed the purchase of Partners in Recovery resulting in 100% ownership. Marc Community has historically accounted for the investment in Partners in Recovery as an unconsolidated entity under the equity method of accounting. Marc Community purchased all of the assets relating to Partners in Recovery and assumed certain trade payables, accrued liabilities and notes payable associated with the assets being acquired. The aggregate purchase price paid was $4,000,000. The purchase of Partners in Recovery directly aligns with the mission of Marc Community and will provide additional services to be an integrated care provider. The goodwill of approximately $3,201,000 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of Partners in Recovery and Marc Community.

At the time of acquisition of Partners in Recovery, the investment in affiliate balance was approximately $447,000. Marc Community remeasured the previously held 33% ownership in Partners in Recovery at fair value in the amount of approximately $393,000 and recognized a loss of approximately $54,000 in the consolidated statements of activities for the year ended September 30, 2018. The preliminary estimates of fair values recorded are Level 3 inputs which have been determined by management based on various market and income analysis and recent asset appraisals.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date:

Cash acquired	$ 3,072,061
Accounts receivable	119,774
Prepaid expenses and other	321,689
Property and equipment	3,401,617
Goodwill	3,201,272
Total identifiable assets acquired	10,116,413
Accounts payable	(284,180)
Accrued liabilities	(2,101,624)
Deferred revenue	(1,667,760)
Deferred rent	(525,565)
Notes payable	(1,143,879)
Previously held equity interest remeasured at fair value	(393,405)
Net assets acquired	$ 4,000,000

Note 5 - Fair Value Measurements

Certain assets and liabilities are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Organization develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk or liquidity profile of the asset or liability.

For assets and liabilities measured at fair value on a recurring basis, the fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety.

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

Investments

A significant portion of the Organization's investment assets are classified within Level 1 because they are comprised of open-end mutual funds with readily determinable fair values based on daily redemption values.

Derivative Financial Instrument

The Organization's derivative financial instrument described in Note 10 is recorded at fair value, which has been calculated based primarily on observable interest rates and yield curves for the term of the swap.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain assets could result in a different fair value measurement.

The following tables set forth by level within the fair value hierarchy related to the Organization's assets and liabilities that are measured at fair value as of September 30, 2019:

	Level 1	Level 2	Level 3	Total
Assets				
Mutual funds	$ 3,909,458	$ -	$ -	$ 3,909,458
Pooled funds held at a community foundation	-	32,822	-	32,822
	$ 3,909,458	$ 32,822	$ -	$ 3,942,280
Liabilities				
Derivative financial instrument	$ -	$ 714,237	$ -	$ 714,237

The following tables set forth by level within the fair value hierarchy related to the Organization's assets and liabilities that are measured at fair value as of September 30, 2018:

	Level 1	Level 2	Level 3	Total
Assets				
Mutual funds	$ 394,030	$ -	$ -	$ 394,030
Pooled funds held at a community foundation	-	32,310	-	32,310
	$ 394,030	$ 32,310	$ -	$ 426,340
Liabilities				
Derivative financial instrument	$ -	$ 106,206	$ -	$ 106,206

Note 6 - Property and Equipment

Property and equipment consisted of the following at September 30, 2019 and 2018:

	2019	2018
Land	$ 5,826,734	$ 5,748,991
Buildings	28,276,650	27,659,366
Leasehold improvements	6,510,834	6,534,621
Vehicles	1,128,776	1,065,914
Furniture and equipment	4,969,536	4,512,063
Construction in progress	14,143	204,685
Total property and equipment	46,726,673	45,725,640
Less accumulated depreciation	(19,476,299)	(17,334,752)
Property and equipment, net	$ 27,250,374	$ 28,390,888

In June 2010, the City of Mesa transferred title to two residential properties to the Organization. The transfer agreements stipulate that the properties must be used as affordable rental housing and that the properties cannot be sold without written approval from the City of Mesa for twenty years from the date of the transfers. Approximately $233,000 of contribution revenue with donor restrictions was recognized by the Organization during the year ended June 30, 2010 related to the transfer of these properties.

In April 2011, the City of Mesa transferred title to four residential properties to the Organization. The transfer agreements stipulate that the properties must be used as affordable rental housing and that the properties cannot be sold without written approval from the City of Mesa for twenty years from the date of the transfers. Approximately $355,000 of contribution revenue with donor restrictions was recognized by the Organization during the year ended June 30, 2011 related to the transfer of these properties.

Note 7 - Investments in Affiliates

The balance of investments in and receivables from affiliates consisted of the following at September 30, 2019 and 2018:

	2019	2018
Western Health and Wellness		
Original investment in Western Health and Wellness	$ 15,000	$ 15,000
Marc Community's share of accumulated net loss	(609)	(609)
Total investments in affiliates	$ 14,391	$ 14,391

Note 8 - Notes Payable – Bank Line of Credit

The Organization has a $900,000 revolving line of credit with a bank which bears interest at the bank's prime rate minus 0.75% (4.25% and 4.50% at September 30, 2019 and 2018, respectively). The balance outstanding cannot exceed 70% of the balance of outstanding receivables (as defined). This line of credit is secured primarily by receivables and furniture and equipment of the Organization. The outstanding balance on the line of credit as of September 30, 2019 and 2018 was $0. Subsequent to year-end, the line of credit was extended to expire on September 30, 2020 and was increased to $1,500,000.

The line of credit requires 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.

Note 9 - Derivative Financial Instrument: Interest Rate Swap

In June 2018, the Organization entered into an interest rate swap agreement that effectively converted approximately $13,000,000 of the Organization's LIBOR-based variable-rate debt to a fixed rate. The counterparty to the swap agreement is the bank (a major U.S. financial institution) that holds the Organization's LIBOR-based variable-rate bonds payable. Under the swap agreement, the Organization pays interest at a fixed rate of 4.319% and, in return, receives interest at a variable rate based on 80.4% of the one-month LIBOR rate (1.98% and 2.26% at September 30, 2019 and 2018, respectively) plus a margin of 1.52%. The net effect of the swap is to fix the interest rate on $13,000,000 of the Organization's LIBOR-based variable-rate bond payable at 4.319%.

The interest rate swap agreement qualifies as a cash flow hedge, and accordingly, the fair value of the interest rate swap agreement, which is adjusted regularly, is recorded in the Organization's consolidated statements of financial position as an asset or liability, as necessary, with a corresponding adjustment to other charges. The fair value of the Organization's interest rate swap at September 30, 2019 and 2018 was a liability totaling approximately $714,000 and $106,000, respectively. The unrealized holding (loss)/gain on this interest rate swap was approximately ($608,000) and $89,000 for the years ended September 30, 2019 and 2018, respectively.

Note 10 - Notes Payable

Notes payable consisted of the following at September 30, 2019 and 2018:

	2019	2018
Note payable paid off during 2019	$ -	$ 61,155
Note payable to a bank, due in monthly interest-only installments at 6%, final payment in August 2032; collateralized by the land.	960,000	960,000
Note payable to Arizona Health Facilities Authority, due in monthly installments of approximately $2,400, including interest at 3.00%, final payment in November 2022; collateralized by leasehold improvements, equipment, and other property.	87,406	113,329
Capital lease payable, due in monthly installments of approximately $400, including interest at 7.77%, final payment in February 2022; collateralized by the leased equipment.	11,379	15,500
Total notes payable	$ 1,058,785	$ 1,149,984

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

Year Ending September 30,	Amount
2020	$ 31,163
2021	32,334
2022	30,477
2023	4,811
2024	-
Thereafter	960,000
Total notes payable	$ 1,058,785

Interest expense for the years ended September 30, 2019 and 2018 totaled approximately $632,000 and $572,000, respectively, which includes interest on the notes payable above and on the bonds payable (Note 11). In addition, approximately $10,000 and $13,000 of interest expense for the years ended September 30, 2019 and 2018, respectively was interest expense attributable to amortization of bond issuance costs.

Note 11 - Bonds Payable

In December 2013, the Organization entered into loan agreements with the Industrial Development Authority of the County of Maricopa to issue Direct Purchase Revenue Bonds, Series 2013A in the amount of $6,900,000 for a term of twenty-five years, and to issue Direct Purchase Revenue Bonds, Series 2013B in the amount of $2,815,000 for a term of twenty-five years. Series 2013A and Series 2013B were collateralized by certain real property as set forth in the agreements. The issuance of these bonds paid off the balance of the Community Services Facilities Bond, Series 2009A.

In April 2018, the Organization entered into loan agreements with the Industrial Development Authority of the County of Maricopa to issue Direct Purchase Revenue Bonds, Series 2018A (Series 2018A) in the amount of $8,285,000 for a term of thirty years, and to issue Direct Purchase Revenue Bonds, Series 2018B (Series 2018B) in the amount of $4,657,000 for a term of thirty years, and to issue Direct Purchase Revenue Bonds, Series 2018C (Series 2018C) in the amount of $3,100,000 for a term of thirty years. Series 2018A and Series 2018B (collectively, "the Bonds") are collateralized by certain real property as set forth in the agreements.

The Series 2018A Bond was issued for the purpose of refunding the outstanding Series 2013A and 2013B Bonds, funding a debt service reserve, and paying certain costs and expenses incidental to the issuance of the new bonds. The Series 2018B Bond was issued for the purpose of funding refinancing of existing loans and lines and for reimbursement for the acquisition of Partners in Recovery expenditures. There are Series 2018C Bonds that have been approved but have no draws to date.

Bonds payable consisted of the following at September 30, 2019 and 2018:

	2019	2018
Series 2018A, due in monthly installments of approximately $17,000 to $41,000 through May 2043, including interest at 80.4% of the one-month LIBOR rate (1.98% and 2.26% at September 30, 2019 and 2018, respectively) plus 1.81%.	$ 8,007,537	$ 8,216,595
Series 2018B, due in monthly installments of approximately $10,000 to $23,000 through May 2043, including interest at 80% of the one-month LIBOR rate (1.98% and 2.26% at September 30, 2019 and 2018, respectively) plus 1.81%.	4,501,038	4,618,550
Less unamortized bond issuance costs	(294,953)	(304,701)
	$ 12,213,622	$ 12,530,444

Bond issuance costs were $308,993 for 2019 and 2018 and are also being amortized over the life of the bond. No funds have been drawn on Series 2018C.

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

Year Ending September 30,	Amount
2020	$ 343,058
2021	356,247
2022	369,096
2023	382,051
2024	395,472
Thereafter	10,662,651
Less unamortized bond issuance costs	(294,953)
Total bonds payable	$ 12,213,622

The Organization is required to maintain certain net asset, liquidity, and indebtedness ratios, and must comply with other general covenants of the bond agreement.

Note 12 - Net Assets with Donor Restrictions

Assets with donor restrictions consisted of the following at September 30, 2019 and 2018:

	2019	2018
Subject to Expenditure for Specified Purpose		
Restrictions on donated vehicles and property	$ 1,177,053	$ 1,177,053
Housing for low income residents	4,453,500	4,453,500
Purpose restrictions for consumer-directed services	50,000	-
Time restrictions on contributions receivable	5,625	
Remodel	150,000	-
Other	24,986	45,998
	5,861,164	5,676,551
Time Restrictions on Contributions Receivable	5,625	24,000
Perpetual in nature, not subject to spending policy or appropriation	10,000	10,000
Total net assets with donor restrictions	$ 5,876,789	$ 5,710,551

Net assets with donor restrictions released from restriction include:

	2019	2018
Restrictions on donated vehicles and property	$ -	$ 214,136
Other	16,107	-
Time restrictions on contributions receivable	24,000	20,997
Total net assets released from restriction	$ 40,107	$ 235,133

Note 13 - Commitments

The Organization leases office space, residential houses, vehicles, and equipment under various non-cancelable operating leases that expire at various dates through December 2023. Several leases have renewal options. The Organization also leases residential houses and equipment under various month-to-month leases.

Future minimum lease payments under non-cancelable operating leases with initial or remaining terms in excess of one year are scheduled as follows:

Year Ending September 30,	Amount
2020	$ 2,873,977
2021	2,249,765
2022	1,391,667
2023	1,039,628
2024	1,008,124
Thereafter	1,347,360
Total minimum lease payments	$ 9,910,521

Rent expense for the years ended September 30, 2019 and 2018 totaled approximately $3,376,000 and $3,518,000, respectively.

Note 14 - Concentrations

Revenue

The Organization received approximately 74% and 53% of its revenue directly from the Maricopa County RBHA during fiscal year 2019 and 2018, respectively.

On November 2, 2017, the Arizona Health Care Cost Containment System ("AHCCCS") released the AHCCCS Complete Care Request for Proposal (RFP) which integrates physical and behavioral health care contacts under managed care plans for the majority of the 1.9 million AHCCCS members. The integrated delivery model offers a more cohesive health care system for members incentivizing quality health care outcomes with alternative payment models, and leverage health information technology for improved care coordination. Additionally, integrating physical health and behavioral healthcare contracts drives strategic, innovative health care initiatives forward. Effective September 30, 2018, the RBHA contract was renewed to include the Arizona Complete Care, and all lines of business are contracted with either the RBHA or MCOs into the coming year, to ensure continuity of care for the year to come. This funding development provides greater diversification of revenue for service lines outside of Crisis services, which will remain with the RBHA.

The Organization also received approximately 19% and 39% of its revenue directly from the Arizona Department of Economic Security during fiscal year 2019 and 2018, respectively.

Note 15 - Employee Benefit Plans

Marc Community and Partners in Recovery sponsor a combined 403(b) defined contribution plan (the Plan) covering employees meeting plan qualifications. The Plan provides for employer contributions based primarily on employee participation. The total contributions made to the Plan by Marc Community and Partners in Recovery were $264,000 and $232,000 for the years ended September 30, 2019 and 2018, respectively.

Marc Community and Partners in Recovery have a combined non-qualified deferred compensation plan (the Non-Qualified 457b Plan) covering certain executives. The Non-Qualified 457b Plan provides for employer contributions at the discretion of the Board of Directors. Employee deferrals are limited to 85% of annual compensation. Total contributions made to the Non-Qualified 457b Plan by the Organization were $98,000 and $53,000 for the years ended September 30, 2019 and 2018, respectively.

Note 16 - Contingencies

Periodically, the Organization is involved in legal proceedings arising in the normal course of operations. In the opinion of management based on consultations with legal counsel, losses, if any, from these matters are covered by insurance or are immaterial to the Organization's consolidated statements of financial position and consolidated statements of activities.

Note 17 - Income Taxes

The components of the income tax provision (benefit) are as follows as of September 30, 2019 and 2018:

	2019	2018
Current		
Federal	$ -	$ -
State	-	-
	-	-
Deferred		
Federal	21,000	(24,000)
State	(11,000)	(10,000)
Valuation allowance	(10,000)	34,000
	-	-
Total provision	$ -	$ -

Deferred tax assets and liabilities are comprised of the following as of September 30, 2019 and 2018:

	2019	2018
Deferred tax assets		
Net operating loss	$ 375,000	$ 365,000
Net deferred tax asset before valuation allowance	$ 375,000	$ 365,000
Valuation allowance	(375,000)	(365,000)
Net deferred tax assets	$ -	$ -

As of September 30, 2019, the Organization has estimated federal net operating loss carryforwards (NOLs) of $1,597,000, which begin to expire in the year 2028. The Organization also has estimated state NOLs of $810,000, which begin to expire in the year 2033.

For financial reporting purposes, a valuation allowance of $375,000 at September 30, 2019 and 2018 has been established to offset deferred tax assets related to NOLs. Pursuant to income tax accounting guidance, the Organization has established a valuation allowance against the entire net deferred tax asset. The valuation allowance increased by $10,000 and $89,000 in 2019 and 2018, respectively. The Organization will continue to evaluate tax assets and provide a valuation allowance until it is more likely than not to realize the tax benefit.

Note 18 - Related Party Transactions

During the years ended September 30, 2019 and 2018, the Organization paid for professional services from a board member of approximately $77,000 and $32,000, respectively.

Note 19 - Subsequent Events

The Organization has evaluated subsequent events through September 25, 2020, the date which the financial statements were available to be issued.

Subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Organization's financial position is not known.

Subsequent to year-end, Marc Community applied for and was granted a $4,687,500 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The loan accrues interest at 1.00%, but payments are not required to begin for six months after the funding of the loan. Marc Community is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. Marc Community intends to take measures to maximize the loan forgiveness but cannot reasonably determine the portion of the loan that will ultimately be forgiven.

Subsequent to year-end, Partners in Recovery applied for and was granted a $4,500,900 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The loan accrues interest at 1.00%, but payments are not required to begin for six months after the funding of the loan. Partners in Recovery is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. Partners in Recovery intends to take measures to maximize the loan forgiveness but cannot reasonably determine the portion of the loan that will ultimately be forgiven.

In January 2020, the Organization drew down additional bond debt with the Industrial Development Authority of the County of Maricopa and issued Direct Purchase Revenue Bonds, Series 2018C in the amount of $1,218,750; Series 2018C has remaining funds to be drawn of approximately $1,820,300. The Series are collateralized by certain real property as set forth in the agreements. The proceeds from the draw down were used to finance a property.

Supplementary Information
September 30, 2019

Marc Community Resources, Inc. and Affiliates

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Marc Community Resources, Inc. and Affiliates

Consolidating Statement of Financial Position

September 30, 2019

	Marc Community Resources, Inc. Advocates for the Disabled	TecMarc, Inc.	The Marc Foundation	Village at Oasis Park Phase I, Inc.	Village at Oasis Park Phase II, Inc.	Partners in Recovery, LLC	Eliminations	Consolidated
Assets								
Cash and cash equivalents	$ 5,815,669	$ 102,293	$ 599,441	$ 91,031	$ 29,689	$ 2,130,787	$ -	$ 8,768,910
Consumer trust funds	74,196	-	-	-	-	-	-	74,196
Accounts receivable, net	2,328,548	31,689	-	-	1,139	1,645,793	-	4,007,169
Due from related parties	2,387,977	42	82,203	58	-	1,127	(2,471,407)	-
Contributions receivable	9,219	-	-	-	-	-	-	9,219
Prepaid expenses and other	217,934	-	1,822	-	-	76,233	-	295,989
Investments	3,378,877	-	32,822	-	-	530,581		3,942,280
Investments in affiliates	1,975,630	-	-	-	-	-	(1,961,239)	14,391
Property and equipment, net	19,905,843	22,785	-	2,321,359	2,012,641	2,987,746	-	27,250,374
Goodwill, net	2,561,018	-	-	-	-	-	-	2,561,018
Deposits	180,370	-	-	4,857	3,764	312,693	-	501,684
Total assets	$ 38,835,281	$ 156,809	$ 716,288	$ 2,417,305	$ 2,047,233	$ 7,684,960	$ (4,432,646)	$ 47,425,230
Liabilities and Net Assets								
Liabilities								
Consumer trust funds	$ 74,196	$ -	$ -	$ -	$ -	$ -	$ -	$ 74,196
Accounts payable	691,419	1,786	-	3,331	3,201	329,332	-	1,029,069
Due to related parties	83,372	1,511,892	727,695	15,036	17,441	115,971	(2,471,407)	-
Accrued liabilities	2,130,652	24,357	20,200	3,632	3,764	3,294,958	-	5,477,563
Deferred revenue	487,525	-	-	-	-	-	-	487,525
Deferred rent	68,608					617,983	-	686,591
Lease incentive obligation, net	-	-	-	-	-	307,692	-	307,692
Derivative financial instrument; interest rate swap	714,237	-	-	-	-	-	-	714,237
Notes payable	-	-	-	-	-	1,058,785	-	1,058,785
Bonds payable, less unamortized bond issuance costs of $294,953	12,213,622	-	-	-	-	-	-	12,213,622
Total liabilities	16,463,631	1,538,035	747,895	21,999	24,406	5,724,721	(2,471,407)	22,049,280
Net Assets								
Net assets without donor restrictions	21,038,972	(1,382,226)	(122,218)	56,106	(91,473)	1,960,239	(1,960,239)	19,499,161
Common stock	-	1,000	-	-	-	-	(1,000)	-
Total without donor restriction	21,038,972	(1,381,226)	(122,218)	56,106	(91,473)	1,960,239	(1,961,239)	19,499,161
Net assets with donor restrictions	1,332,678	-	90,611	2,339,200	2,114,300	-	-	5,876,789
Total net assets (deficit)	22,371,650	(1,381,226)	(31,607)	2,395,306	2,022,827	1,960,239	(1,961,239)	25,375,950
Total liabilities and net assets	$ 38,835,281	$ 156,809	$ 716,288	$ 2,417,305	$ 2,047,233	$ 7,684,960	$ (4,432,646)	$ 47,425,230

Marc Community Resources, Inc. and Affiliates

Consolidating Statement of Activities

September 30, 2019

	Marc Community Resources, Inc. Advocates for the Disabled	TecMarc, Inc.	The Marc Foundation	Village at Oasis Park Phase I, Inc.	Village at Oasis Park Phase II, Inc.	Partners in Recovery, LLC	Eliminations	Consolidated
Revenue and Gains								
Governmental								
Arizona Department of Economic Security	$ 12,869,190	$ -	$ -	$ -	$ -	$ -	$ -	$ 12,869,190
Arizona Department of Health Services	17,173,753	-	-	-	-	33,364,275	-	50,538,028
City of Mesa	35,748	-	-	-	-	-	-	35,748
Total governmental revenue	30,078,691	-	-	-	-	33,364,275	-	63,442,966
Other								
Service contracts	469,571	-	-	-	-	-	-	469,571
Service fees	427,228	-	-	-	-	-	(278,415)	148,813
Contributions	317,030	-	269,477	600	600	2,231	-	589,938
Investment income	90,423	-	4,521	33	40	8,122	-	103,139
Loss on disposition of property and equipment	(33,768)	-	-	-	-	-	-	(33,768)
Rental income	535,234	-	-	93,948	97,109	119,676	-	845,967
Gain on investments in affiliates	1,593,836	-	-	-	-	-	(1,593,836)	-
Change in value of derivative financial instrument	(608,031)	-	-	-	-	-	-	(608,031)
Other	1,425,840	131,000	-	3,895	3,733	2,704,957	(948,515)	3,320,910
Total other revenue and gains	4,217,363	131,000	273,998	98,476	101,482	2,834,986	(2,820,766)	4,836,539
Total revenue and gains	34,296,054	131,000	273,998	98,476	101,482	36,199,261	(2,820,766)	68,279,505
Expenses								
Program services								
Residential	7,284,520	-	-	-	-	-	-	7,284,520
Employment services	7,100,360	-	-	-	-	-	(5,595)	7,094,765
Day services	6,100,452	-	-	-	-	-	-	6,100,452
Home services	6,403,225	188,547	-	-	-	-	(41,765)	6,550,007
Other housing	187,846	-	-	163,245	165,852	-	-	516,943
Outpatient clinic	1,744,757	-	-	-	-	31,416,361	(521,990)	32,639,128
Total program services	28,821,160	188,547	-	163,245	165,852	31,416,361	(569,350)	60,185,815
Supporting Activities								
Management and general	6,469,155	-	260,385	-	-	3,186,305	(657,580)	9,258,265
Fundraising	60,651	-	-	-	-	-	-	60,651
Total supporting activities	6,529,806	-	260,385	-	-	3,186,305	(657,580)	9,318,916
Total expenses	35,350,966	188,547	260,385	163,245	165,852	34,602,666	(1,226,930)	69,504,731
Change in Net Assets	(1,054,912)	(57,547)	13,613	(64,769)	(64,370)	1,596,595	(1,593,836)	(1,225,226)
Net Assets (Deficit), Beginning of Year	23,426,562	(1,323,679)	(45,220)	2,460,075	2,087,197	363,644	(367,403)	26,601,176
Net Assets (Deficit), End of Year	$ 22,371,650	$ (1,381,226)	$ (31,607)	$ 2,395,306	$ 2,022,827	$ 1,960,239	$ (1,961,239)	$ 25,375,950

Marc Community Resources, Inc. and Affiliates

Consolidating Schedule of Revenues and Expenses

Year Ended September 30, 2019

	RBHA						Non-RBHA	
	Outpatient				Residential			
	Seriously Mentally Ill Intensive Outpatient Services	Community Living	General Mental Health/ Substance Abuse (Clinic)	Community Service Agency: Employment	Seriously Mentally Ill Intensive Level II Services	Sub-Total RBHA Contract	Business Activities Unrelated to RBHA	Total
Revenue								
RBHA Revenue	$ 3,448,370	$ 4,642,112	$ 1,089,052	$ 4,297,335	$ 918,060	$ 14,394,929	$ -	$ 14,394,929
Other Revenue	289,396	401,139	752,370	1,302,852	89,694	2,835,451	(160,283)	2,675,168
Interest Income	-	-	-	-	-	-	90,423	90,423
Business Activities Unrelated to RBHA	-	-	-	-	-	-	51,118,985	51,118,985
Total Revenue	3,737,766	5,043,251	1,841,422	5,600,187	1,007,754	17,230,380	51,049,125	68,279,505
Expenses								
Clinical Services Expenses:								
Wages:								
BHT	1,627,570	2,493,318	-	-	559,426	4,680,314	-	4,680,314
BH professional	54,080	45,006	405,269	-	15,002	519,357	-	519,357
BH paraprofessional	124,800	16,380	-	-	5,460	146,640	-	146,640
Psychologist, Psychiatrists, NP's	-	-	316,592	-	-	316,592	-	316,592
CSA vocational specialists	-	-	-	2,899,264	-	2,899,264	-	2,899,264
Supervision	329,683	142,905	151,428	368,360	69,920	1,062,296	-	1,062,296
Subtotal labor	2,136,133	2,697,609	873,289	3,267,624	649,808	9,624,463	-	9,624,463
Employee-related	383,129	422,540	193,245	454,519	95,525	1,548,958	-	1,548,958
Operations	430,325	184,600	222,107	193,527	50,176	1,080,735	-	1,080,735
Quality/claims/informatics	476,940	254,571	233,066	124,557	80,331	1,169,465	-	1,169,465
Temp/contract labor	25,195	307,661	10,296	-	83,604	426,756	-	426,756
Professional/outside services	988	21,899	335	28,109	6,058	57,389	-	57,389
Travel/transportation	143,903	74,067	8,307	170,348	40,202	436,827	-	436,827
Facility/occupancy	289,169	189,939	85,956	32,375	82,486	679,925	-	679,925
Depreciation	58,429	133,358	59,248	152,540	24,139	427,714	-	427,714
Other clinical services expenses	85,613	151,563	69,109	270,172	50,199	626,656	-	626,656
Subtotal Clinical Services Expenses	4,029,824	4,437,807	1,754,958	4,693,771	1,162,528	16,078,888	-	16,078,888

Marc Community Resources, Inc. and Affiliates

Consolidating Schedule of Revenues and Expenses (continued)

Year Ended September 30, 2019

	RBHA						Non-RBHA	
	Outpatient				Residential			
	Seriously Mentally Ill Intensive Outpatient Services	Community Living	General Mental Health/ Substance Abuse (Clinic)	Community Service Agency: Employment	Seriously Mentally Ill Intensive Level II Services	Sub-Total RBHA Contract	Business Activities Unrelated to RBHA	Total
Business Activities Unrelated to RBHA	-	-	-	-	-	-	14,651,996	14,651,996
Administrative								
Salaries	267,784	361,313	131,925	298,404	72,198	1,131,624	-	1,131,624
Employee-related	71,955	97,087	35,449	100,579	19,400	324,470	-	324,470
Professional/outside services	70,525	95,157	34,744	121,544	19,015	340,985	-	340,985
Travel/transportation	10,099	13,626	4,975	18,746	2,723	50,169	-	50,169
Facility/occupancy	18,078	24,393	8,906	19,293	4,874	75,544	-	75,544
Depreciation	22,293	30,080	10,983	29,298	6,011	98,665	-	98,665
Other indirect expenses	162,891	219,784	80,249	261,135	43,918	767,977	-	767,977
Business activities unrelated to RBHA	-	-	-	-	-	-	35,984,413	35,984,413
Subtotal Administrative Expenses	623,625	841,440	307,231	848,999	168,139	2,789,434	35,984,413	38,773,847
Total Expenses	4,653,449	5,279,247	2,062,189	5,542,770	1,330,667	18,868,322	50,636,409	69,504,731
Increase (decrease) in Net Assets	$ (915,683)	$ (235,996)	$ (220,767)	$ 57,417	$ (322,913)	$ (1,637,942)	$ 412,716	$ (1,225,226)
FTE's - Clinical Services (by program)	19.30	200.23	12.03	50.00	22.63	304.19		
FTE's - Clinical Support (by program)	6.32	6.35	7.16	0.00	1.17	21.00		
FTE's - Administrative (by program)	3.20	4.31	1.57	24.78	0.86	34.72		

Consolidated Financial Statements
September 30, 2018

Marc Community Resources, Inc. and Affiliates

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Directors
Marc Community Resources, Inc. and Affiliates
Mesa, Arizona

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Marc Community Resources, Inc. (a nonprofit organization) and Affiliates (collectively, the Organization), which comprise the consolidated statement of financial position as of September 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Marc Community Resources, Inc. and Affiliates as of September 30, 2018, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter – Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental schedules on pages 24-27 are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Eide Bailly LLP

Phoenix, Arizona
September 26, 2019

Marc Community Resources, Inc. and Affiliates

Consolidated Statement of Financial Position

September 30, 2018

Assets	
Cash and cash equivalents	$ 14,495,387
Consumer trust funds	43,685
Accounts receivable, net	2,137,552
Contributions receivable	132,446
Prepaid expenses and other	325,387
Investments	426,340
Investments in affiliates	14,391
Certificates of deposit	253,976
Property and equipment, net	28,390,888
Goodwill, less accumulated amortization of $320,127	2,881,145
Deposits	330,617
Total assets	$ 49,431,814
Liabilities and Net Assets	
Liabilities	
Consumer trust funds	$ 43,685
Accounts payable	724,987
Accrued liabilities	5,141,861
Deferred revenue	1,973,584
Deferred rent	799,448
Lease incentive obligation, net	360,439
Derivative financial instrument: interest rate swap	106,206
Notes payable	1,149,984
Bonds payable, less unamortized bond issuance costs of $304,701	12,530,444
Total liabilities	22,830,638
Net Assets	
Unrestricted	20,890,625
Temporarily restricted	5,700,551
Permanently restricted	10,000
Total net assets	26,601,176
Total liabilities and net assets	$ 49,431,814

Marc Community Resources, Inc. and Affiliates

Consolidated Statement of Activities

Year Ended September 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenue, Support and Gains				
Governmental				
Arizona Department of Economic Security	$ 13,447,173	$ -	$ -	$ 13,447,173
Arizona Department of Health Services	49,720,910	-	-	49,720,910
City of Mesa	29,730	-	-	29,730
Total governmental revenue	63,197,813	-	-	63,197,813
Other				
Service contracts	464,894	-	-	464,894
Service fees	213,703	-	-	213,703
United Way contributions	-	24,000	-	24,000
Other contributions	362,823	16,107	-	378,930
Interest income	30,039	466	-	30,505
Loss on disposition of property and equipment	(71,730)	-	-	(71,730)
Rental income	854,150	-	-	854,150
Loss on investments in affiliates	(53,908)	-	-	(53,908)
Change in value of derivative financial instrument	89,484	-	-	89,484
Other	3,211,782	-	-	3,211,782
Total other revenue and gains	5,101,237	40,573	-	5,141,810
Net assets released from restrictions	235,133	(235,133)	-	-
Total revenue, support and gains	68,534,183	(194,560)	-	68,339,623
Expenses				
Program services				
Residential	6,987,083	-	-	6,987,083
Employment services	6,589,579	-	-	6,589,579
Day services	7,060,032	-	-	7,060,032
Home services	6,499,658	-	-	6,499,658
Other housing	594,768	-	-	594,768
Outpatient clinic	33,945,795	-	-	33,945,795
Total program services	61,676,915	-	-	61,676,915
Supporting activities				
Management and general	6,401,975	-	-	6,401,975
Fundraising	45,373	-	-	45,373
Total supporting activities	6,447,348	-	-	6,447,348
Total expenses	68,124,263	-	-	68,124,263
Operating Income	409,920	(194,560)	-	215,360
Loss on Refinancing	(158,856)	-	-	(158,856)
Change in Net Assets	251,064	(194,560)	-	56,504
Net Assets, Beginning of Year	20,639,561	5,895,111	10,000	26,544,672
Net Assets, End of Year	$ 20,890,625	$ 5,700,551	$ 10,000	$ 26,601,176

Marc Community Resources, Inc. and Affiliates

Consolidated Statement of Functional Expenses

Year Ended September 30, 2018

	Program Services							Supporting Activities			
	Residential	Employment Services	Day Services	Home Services	Other Housing	Outpatient Clinic	Total Program Services	Management and General	Fundraising	Total Supporting Activities	Total
Salaries	$ 4,434,914	$ 4,507,733	$ 4,391,732	$ 4,342,706	$ -	$ 21,418,739	$ 39,095,824	$ 2,836,800	$ 31,562	$ 2,868,362	$ 41,964,186
Employee-Related Expenses	693,034	638,413	796,553	734,529	-	4,094,024	6,956,553	590,707	5,622	596,329	7,552,882
Occupancy	656,767	253,447	695,772	274,180	299,639	2,734,484	4,914,289	206,624	2,123	208,747	5,123,036
Professional Fees	181,484	51,138	69,037	546,750	45,500	1,887,193	2,781,102	932,584	248	932,832	3,713,934
Transportation	334,383	223,529	312,053	106,258	41	786,379	1,762,643	144,853	101	144,954	1,907,597
Supplies	155,703	357,200	165,427	117,690	7,803	406,867	1,210,690	425,935	698	426,633	1,637,323
Equipment Rental	14,294	66,572	48,227	9,920	-	249,838	388,851	42,963	915	43,878	432,729
Depreciation	221,049	316,060	445,880	189,880	208,420	772,960	2,154,249	171,550	1,787	173,337	2,327,586
Other Expenses	295,455	175,487	135,351	177,745	33,365	1,595,311	2,412,714	1,049,959	2,317	1,052,276	3,464,990
Total expenses	$ 6,987,083	$ 6,589,579	$ 7,060,032	$ 6,499,658	$ 594,768	$ 33,945,795	$ 61,676,915	$ 6,401,975	$ 45,373	$ 6,447,348	$ 68,124,263

Operating Activities	
Change in net assets	$ 56,504
Adjustments to reconcile net assets to net cash provided by operating activities	
Interest expense attributable to unamortized bond issuance costs	12,697
Loss on refinancing	158,856
Net unrealized gain on investments	(697)
Change in value on derivative financial instruments	(89,484)
Net loss on investments in affiliates	53,908
Loss on disposition of property and equipment	71,730
Depreciation	2,327,586
Change in allowance for doubtful accounts	11,330
Amortization of lease incentive obligation	(39,561)
Amortization of goodwill	320,127
Change in assets and liabilities	
Accounts receivable	173,322
Due from related parties	95,780
Contributions receivable	2,997
Prepaid expenses and other	349,797
Deposits	(239,281)
Accounts payable	(278,344)
Accrued liabilities	906,000
Deferred revenue	(1,726,046)
Deferred rent	137,197
Leasehold incentive obligation	400,000
Net Cash from Operating Activities	2,704,418
Cash Flows from Investing Activities	
Acquisition of assets of Partners in Recovery	(927,939)
Proceeds from notes receivable	16,782
Purchases of investments	(1,140)
Proceeds from sale of investments	10,958
Proceeds from disposition of property and equipment	677,172
Purchases of property and equipment	(1,815,399)
Net Cash used for Investing Activities	(2,039,566)
Cash Flows from Financing Activities	
Proceeds from borrowings on notes payable	1,500,000
Payments on notes payable	(2,108,403)
Borrowing on line of credit	900,000
Payments on line of credit	(900,000)
Bond issuance costs	(308,993)
Issuance of bonds payable	12,942,000
Termination of bonds payable	(8,260,200)
Payments on bonds payable	(253,934)
Net Cash from Financing Activities	3,510,470

Net Change in Cash and Cash Equivalents	4,175,322
Cash and Cash Equivalents, Beginning of Year	10,320,065
Cash and Cash Equivalents, End of Year	$ 14,495,387
Supplemental Disclosure of Cash Flow Information	
Cash paid for interest	$ 571,901
Acquisition of equipment through capital lease	$ 31,966
Supplemental Schedule of Investing Activities	
Acquisition of Partners in Recovery	
Cash acquired	$ 3,072,061
Accounts receivable	119,774
Prepaid expenses and other	321,689
Property and equipment	3,401,617
Goodwill	3,201,272
Accounts payable	(284,180)
Accrued liabilities	(2,101,624)
Deferred revenue	(1,667,760)
Deferred rent	(525,565)
Notes payable	(1,143,879)
Previously held equity interest remeasured at fair value	(393,405)
Cash paid	$ 4,000,000

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Operations

Marc Community Resources, Inc. and Affiliates (Marc Community) 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 Community provides services throughout primarily Maricopa County, Arizona. During the year ended June 30, 2010, Marc Community acquired Advocates for the Disabled, Inc. (Advocates) by an action by the Board of Directors of Advocates granting Marc Community the sole power to appoint directors to the Advocates' Board. Advocates has become an inactive organization.

TecMarc, Inc. (TecMarc) is an Arizona corporation and was incorporated in March 2008 to conduct the business of information technology sales and support and property management services. TecMarc has 1,000 shares of authorized common stock, all of which have been issued to Marc Community at $1 per share.

During the year, The Foundation for People with Disabilities changed their name to The Marc Foundation (the Foundation). The Foundation is a nonprofit corporation, incorporated in the state of Arizona on January 29, 1988, to provide housing for disabled individuals in residential settings and employment training facilities throughout Maricopa County. Marc Community is the sole member of the Foundation's Board of Directors. During the year ended June 30, 2010, the Foundation transferred substantially all of its property to Marc Community to facilitate the completion of bond financing.

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

The Village at Oasis Park — Phase II, Inc. (the Village II) is a nonprofit corporation and was incorporated in the state of Arizona in August 2010 to provide housing for disabled individuals. The Village II's Board of Directors consists of the Executive Committee of Marc Community and other individuals selected by the Executive Committee of Marc Community.

Partners in Recovery, LLC (Partners in Recovery) is a non-profit organization formed under the laws of the state of Arizona in April 2009 as a limited liability company and has an infinite life. The Organization provides behavioral health case management, treatment, integrated physical care and support to adults with serious mental illnesses in Maricopa County, Arizona. The members of the Organization were Marc Community Resources, Inc. (Marc Community), Jewish Family and Children’s Service, Inc. (JFCS), and Recovery Innovations, Inc. (RII) dba RI International, each of which is a non-profit corporation. As of October 6, 2017, Marc Community bought out the remaining equity partners and is now the sole member of the Organization.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Marc Community, Advocates, TecMarc, the Foundation, Partners in Recovery, the Village, and the Village II (collectively, the Organization). All significant inter-organization transactions have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Goodwill

Goodwill represents costs in excess of purchase price over the fair value of the assets of businesses acquired, including other identifiable intangible assets.

As of October 1, 2017, the Organization adopted Accounting Standards Update (ASU) 2019-06, *Extending the Private Organization Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities.* This accounting alternative allows management to elect to amortize goodwill over a 10-year life. In accordance with the adoption of this accounting alternative for goodwill, the Organization has also elected to test goodwill for impairment, upon the occurrence of one or more triggering events, at the Organization level. The effect of the change in net assets for 2018 was $320,127.

Effective October 1, 2017, goodwill is amortized on the straight-line method over a period of 10 years. Goodwill will be tested for impairment upon the occurrence of an event that would indicate that the fair value of the Organization is below its carrying value. As of September 30, 2018, the carrying value of the Organization's goodwill was not considered impaired.

Investments

The Organization reports investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. Investments at September 30, 2018 totaled approximately $426,000 all of which were invested in mutual funds. Net investment income is reported in the consolidated statement of activities and consists of interest and dividend income and realized and unrealized gains and losses.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term nature of the items. The carrying value of promises to give due in more than one year is based on the discounted net present value of the expected future cash receipts and approximates fair value. The fair values of bonds and notes payable are based on the stated interest rates and approximate their carrying values.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and foundations supportive of the Organization's mission.

Property and Equipment

Purchased property and equipment over $5,000 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. 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. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended September 30, 2018.

Deferred Revenue

Each month, the Organization receives block payment funding for behavioral health services from the Regional Behavioral Health Authority (RBHA) in Maricopa County. These funds are considered earned if total service claims generated equal or exceed the block payments. If service claims are insufficient, the RBHA has the contractual right to recoup the funding or characterize the deficiency as deferred revenue with an authorization to use the funding in the next fiscal year. For the year ended September 30, 2018, the Organization has a service claim deficiency balance of approximately $2,000,000. This amount is classified as deferred revenue on the consolidated statement of financial position.

Deferred Rent

Certain leases require escalating rent payments over the lease term. The total rent payments are divided by the total number of months to compute an amount, which is charged to expense on a straight-line basis over the lease term. Deferred rent occurs when the monthly straight-line expense is greater than the monthly rent paid.

Lease Incentive Obligation

There are certain leases held by the Organization that have included provisions for lease incentives related to tenant improvement allowances. The funding for the purchase of leasehold improvements has been recorded as leasehold improvements, is included in property and equipment and is depreciated over the life of the lease. A corresponding liability has been recorded for the lease incentive obligation. This obligation is being amortized over the life of the lease with annual amortization being netted against rent expense.

Interest-Rate Swap

The Organization uses an interest-rate swap to mitigate interest-rate risk on bonds payable (Note 8). The related liability or asset is reported at fair value in the consolidated statement of financial position, and unrealized gains or losses are included in the consolidated statement of activities.

Self-Insurance Reserves

The Organization provides for self-insurance reserve for estimated incurred but not reported claims for its employee health plan. This reserve, which is included in accrued liabilities on the consolidated statement of financial position, is estimated based upon historical submission and payment data, cost trends, utilization history, and other relevant factors.

Adjustments to reserves are reflected in the operating results in the period in which the change in estimate is identified. At September 30, 2018, amounts reserved for these claims totaled approximately $846,000.

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, unless the likelihood that the Organization will not fulfill the conditions is remote, in which case the contribution is recognized when the promise is made. 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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Organization's board of directors.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Organization. The restrictions stipulate that resources be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of the agreements.

Bond Issuance costs

Bond issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which is a reasonable estimate of the effective interest method. Bond issuance costs are included within long-term debt in the consolidated statement of financial position. Amortization of bond issuance costs is included in interest expense in the accompanying consolidated financial statements.

Advertising

The cost of advertising is expensed as incurred. Advertising expense for the year ended September 30, 2018 totaled approximately $62,000.

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.

Income Tax Status

Marc Community, Advocates, the Foundation, the Village, the Village II, and Partners in Recovery, LLC are organized as Arizona nonprofit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). They qualify for charitable contributions under Section 170. Marc Community, Advocates, the Foundation and the Village have been determined not to be private foundations under Section 509(a)(2), 509(a)(1), 509(a)(3) and 509(a)(3), respectively. Management has determined the Village II is not a private foundation in accordance with Section 509(a)(3). The organizations are annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Advocates, the Foundation, the Village and the Village II have determined they have no unrelated business taxable income and have not filed the Exempt Organization Business Income Tax Returns (IRS Form 990-T), or its Arizona equivalent, Form 99-T. Marc Community has unrelated business taxable income and has filed the Exempt Organization Business Income Tax Returns (IRS Form 990-T), and its Arizona equivalent, Form 99-T.

TecMarc accounts for income taxes under the liability method pursuant to income tax accounting guidance. Under the liability method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax basis of assets and liabilities using the enacted rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established against the deferred tax asset for the uncertainty of TecMarc's ability to use the net operating tax loss carryforwards in the future.

Management believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The organizations would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. Marc Community and TecMarc's income tax filings required by federal and state authorities are no longer subject to tax examination for years ending before September 30, 2015.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU 2014-09 is that revenue should be recognized in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process in order to achieve this core principle which may require the use of judgment and estimates. The entity may adopt ASU 2014-09 either by using a full retrospective approach for all periods presented or a modified retrospective approach. Additionally, in April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. The amendments in this standard clarify the process of identifying performance obligations and the licensing implementation guidance. These standards are effective for annual reporting periods beginning after December 15, 2018, or October 1, 2019 for the Organization. The Organization has not yet selected a transition method and is currently evaluating the impact of these standards on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02 to improve financial reporting about leasing transactions (Topic 842). The ASU affects all lease transactions. The Organization as a lessee is required to recognize a right-of-use asset and a lease liability, initially measured at present value of the lease payments, on the statements of financial position. For leases greater than twelve months, the Organization as a lessee must also recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of activities. Repayments of the principal potion of the lease liability must be classified within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. Leases for less than twelve months recognize a single lease cost on a straight-line basis. The amendments in this update are effective for years beginning after December 15, 2019, or October 1, 2020 for the Organization. The Organization is currently evaluating the impact of adopting ASU 2016-02 and has not determined the effect on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14 to improve presentation of financial statements for nonprofit entities. The ASU affects all nonprofit entities. The main provisions of this update that will impact the Organization include:

- Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. The nonprofits will report amounts for net assets with donor restrictions and net assets without donor restrictions. They will also be required to present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes.
- All nonprofits will now be required to disclose an analysis of expenses by both functional and natural classifications.
- All nonprofits will have to add disclosures regarding how they manage liquidity and information that communications the availability of financial assets to meet cash needs for general expenditures.

This new standard will be effective for years beginning after December 15, 2017, or October 1, 2018 for the Organization. The standard requires retrospective application.

Note 2 - Accounts Receivable and Credit Policy

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectable 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. The Organization does not require collateral on accounts receivable balances and does not generally charge interest on past due balances. At September 30, 2018, the allowance was approximately $66,000.

Note 3 - Conditional Promises to Give

During the years ended June 30, 2007 and 2006, the Organization received conditional promises to give as part of agreements with Value Options (Magellan replaced Value Options as the RBHA contracted for Maricopa County during the year ended June 30, 2008. Magellan was replaced by Mercy Maricopa Integrated Care during the year ended June 30, 2014). Under the 2007 agreement, unrestricted title to two single-family residences, with an estimated value of $607,000 at the date of the agreements, will be transferred to the Organization if certain conditions are met. Under the 2006 agreement, unrestricted title to one single-family residence, with an estimated value of $300,000 at the date of the agreement, will be transferred to the Organization if certain conditions are met. The condition for the transfer of title is that the Organization functions as landlord of the residences for a period of twenty-five years. During this period, the Organization will collect rent from the tenants and will be responsible for repairs and maintenance on the residences. Once all conditions have been met, the Organization will recognize the fair value of the property in the consolidated financial statements.

Note 4 - Business Combination

On October 6, 2017, Marc Community completed the purchase of Partners in Recovery resulting in 100% ownership. Marc Community has historically accounted for the investment in Partners in Recovery as an unconsolidated entity under the equity method of accounting. Marc Community purchased all of the assets relating to Partners in Recovery and assumed certain trade payables, accrued liabilities and notes payable associated with the assets being acquired. The aggregate purchase price paid was $4,000,000. The purchase of Partners in Recovery directly aligns with the mission of Marc Community and will provide additional services to be an integrated care provider. The goodwill of approximately $3,201,000 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of Partners in Recovery and Marc Community.

At the time of acquisition of Partners in Recovery, the investment in affiliate balance was approximately $447,000. Marc Community remeasured is previously held 33% ownership in Partners in Recovery at fair value in the amount of approximately $393,000 and recognized a loss of approximately $54,000 in the statement of activities. The preliminary estimates of fair values recorded are Level 3 inputs which have been determined by management based on various market and income analysis and recent asset appraisals.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date:

Cash acquired	$ 3,072,061
Accounts receivable	119,774
Prepaid expenses and other	321,689
Property and equipment	3,401,617
Goodwill	3,201,272
Total identifiable assets acquired	10,116,413
Accounts payable	(284,180)
Accrued liabilities	(2,101,624)
Deferred revenue	(1,667,760)
Deferred rent	(525,565)
Notes payable	(1,143,879)
Previously held equity interest remeasured at fair value	(393,405)
Net assets acquired	$ 4,000,000

Note 5 - Property and Equipment

Property and equipment consisted of the following at September 30, 2018:

Land	$ 5,748,991
Buildings	27,659,366
Leasehold improvements	6,534,621
Vehicles	1,065,914
Furniture and equipment	4,512,063
Construction in progress	204,685
Total property and equipment	45,725,640
Less accumulated depreciation	(17,334,752)
Property and equipment, net	$ 28,390,888

In June 2010, the City of Mesa transferred title to two residential properties to the Organization. The transfer agreements stipulate that the properties must be used as affordable rental housing and that the properties cannot be sold without written approval from the City of Mesa for twenty years from the date of the transfers. Approximately $233,000 of temporarily restricted contribution revenue was recognized by the Organization during the year ended June 30, 2010 related to the transfer of these properties.

In April 2011, the City of Mesa transferred title to four residential properties to the Organization. The transfer agreements stipulate that the properties must be used as affordable rental housing and that the properties cannot be sold without written approval from the City of Mesa for twenty years from the date of the transfers. Approximately $355,000 of temporarily restricted contribution revenue was recognized by the Organization during the year ended June 30, 2011 related to the transfer of these properties.

Note 6 - Investments in Affiliates

The balance of investments in and receivables from affiliates consisted of the following at September 30, 2018:

Western Health and Wellness		
Original investment in Western Health and Wellness	$	15,000
Marc Community's share of accumulated net loss		(609)
		14,391
Total investments in affiliates	$	14,391

Note 7 - Notes Payable – Bank Line of Credit

The Organization has a $900,000 revolving line of credit with a bank which bears interest at the bank's prime rate (5.25% at September 30, 2018). The balance outstanding cannot exceed 70% of the balance of outstanding receivables (as defined). This line of credit is secured primarily by receivables and furniture and equipment of the Organization and expires August 31, 2019. The outstanding balance on the line of credit as of September 30, 2018 was $0.

The line of credit requires 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.

Note 8 - Derivative Financial Instrument: Interest Rate Swap

In June 2018, the Organization entered into an interest rate swap agreement that effectively converted approximately $13,000,000 of the Organization's LIBOR-based variable-rate debt to a fixed rate. The counterparty to the swap agreement is the bank (a major U.S. financial institution) that holds the Organization's LIBOR-based variable-rate bonds payable. Under the swap agreement, the Organization pays interest at a fixed rate of 4.319% and, in return, receives interest at a variable rate based on 80.4% of the one-month LIBOR rate (2.26% at September 30, 2018) plus a margin of 1.81%. The net effect of the swap is to fix the interest rate on $13,000,000 of the Organization's LIBOR-based variable-rate bond payable at 4.319%.

The interest rate swap agreement qualifies as a cash flow hedge, and accordingly, the fair value of the interest rate swap agreement, which is adjusted regularly, is recorded in the Organization's consolidated statement of financial position as an asset or liability, as necessary, with a corresponding adjustment to other charges. The fair value of the Organization's interest rate swap at September 30, 2018 was a liability totaling approximately $106,000. The unrealized holding gain on this interest rate swap was approximately $89,000 for the year ended September 30, 2018.

Note 9 - Notes Payable

Notes payable consisted of the following at September 30, 2018:

Note payable to finance company, due in monthly installments of approximately $800, including interest at 1.90%, final payment in August 2022; collateralized by a vehicle and equipment.	$ 37,382
Note payable to a bank, due in monthly interest-only installments at 6%, final payment in August 2032; collateralized by the land.	960,000
Note payable to Arizona Health Facilities Authority, due in monthly installments of approximately $2,400, including interest at 3.00%, final payment in November 2022; collateralized by leasehold improvements, equipment, and other property.	113,329
Capital lease payable, due in monthly installments of approximately $400, including interest at 7.77%, final payment in February 2022; collateralized by the leased equipment.	15,500
Capital lease payable, due in monthly installments of approximately $1,600, including interest at 12.20%, final payment in April 2019; collateralized by the leased equipment.	10,498
Capital lease payable, due in monthly installments of approximately $1,300, including interest at 6.68%, final payment in August 2019; collateralized by the leased equipment.	13,275
Total notes payable	$ 1,149,984

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

Year Ending September 30,	Amount
2019	$ 63,098
2020	40,623
2021	41,975
2022	39,476
2023	4,810
Thereafter	960,002
Total notes payable	$ 1,149,984

Interest expense for the year ended September 30, 2018 totaled approximately $572,000, which includes interest on the notes payable above and on the bonds payable (Note 10). In addition, approximately $13,000 of interest expense for the year ended September 30, 2018 was interest expense attributable to amortization of bond issuance costs.

Note 10 - Bonds Payable

In December 2013, the Organization entered into loan agreements with the Industrial Development Authority of the County of Maricopa to issue Direct Purchase Revenue Bonds, Series 2013A in the amount of $6,900,000 for a term of twenty-five years, and to issue Direct Purchase Revenue Bonds, Series 2013B in the amount of $2,815,000 for a term of twenty-five years. Series 2013A and Series 2013B were collateralized by certain real property as set forth in the agreements. The issuance of these bonds paid off the balance of the Community Services Facilities Bond, Series 2009A.

In April 2018, the Organization entered into loan agreements with the Industrial Development Authority of the County of Maricopa to issue Direct Purchase Revenue Bonds, Series 2018A (Series 2018A) in the amount of $8,285,000 for a term of thirty years, and to issue Direct Purchase Revenue Bonds, Series 2018B (Series 2018B) in the amount of $4,657,000 for a term of thirty years, and to issue Direct Purchase Revenue Bonds, Series 2018C (Series 2018C) in the amount of $3,100,000 for a term of thirty years. Series 2018A and Series 2018B (collectively, "the Bonds") are collateralized by certain real property as set forth in the agreements. The Organization borrowed $8,285,000 under Series 2018A, and approximately $8,217,000 was outstanding at September 30, 2018. The Organization borrowed approximately $4,700,000 under Series 2018B, and approximately $4,619,000 was outstanding at September 30, 2018. Bond issuance costs were $308,993 and are also being amortized over the life of the bond. No funds have been drawn on Series 2018C.

The Series 2018A Bond was issued for the purpose of refunding the outstanding Series 2013A and 2013B Bonds, funding a debt service reserve, and paying certain costs and expenses incidental to the issuance of the new bonds. The Series 2018B Bond was issued for the purpose of funding refinancing of existing loans and lines and for reimbursement for the acquisition of Partners in Recovery expenditures.

Principal and interest on the Bonds are payable monthly. Series 2018A is due in monthly principal amounts of approximately $17,000 to $41,000 through May 2043. Series 2018A bears interest at 80.4% of the one-month LIBOR rate (2.26% at September 30, 2018) plus 1.81%. 2018B is due in monthly principal payments starting in June 2018 in amounts of approximately $10,000 to $23,000 through May 2043. Series 2018B bears interest at 80% of the one-month LIBOR rate (2.26% at September 30, 2018) plus 1.81%.

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

Year Ending September 30,	Amount
2019	$ 326,570
2020	343,058
2021	356,247
2022	369,096
2023	382,051
Thereafter	11,058,124
Less unamortized bond issuance costs	(304,701)
Total bonds payable	$ 12,530,445

The Organization is required to maintain certain net asset, liquidity, and indebtedness ratios, and must comply with other general covenants of the loan agreement.

Note 11 - Restricted Net Assets

Temporarily restricted net assets consisted of the following at September 30, 2018:

Restrictions on donated vehicles and property	$ 1,177,053
Housing for low income residents	4,453,500
Time restrictions on contributions receivable	24,000
Other	45,998
Total temporarily restricted net assets	$ 5,700,551

Temporarily restricted net assets released from restriction include:

Restrictions on donated vehicles and property	$ 214,136
Time restrictions on contributions receivable	20,997
Total temporarily restricted net assets	$ 235,133

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

Note 12 - Commitments

The Organization leases office space, residential houses, vehicles, and equipment under various non-cancelable operating leases that expire at various dates through December 2023. Several leases have renewal options. The Organization also leases residential houses and equipment under various month-to-month leases.

Future minimum lease payments under non-cancelable operating leases with initial or remaining terms in excess of one year are scheduled as follows:

Year Ending September 30,	Operating Leases
2019	$ 3,142,101
2020	2,781,452
2021	2,244,580
2022	1,335,506
2023	1,015,261
Thereafter	2,355,484
Total minimum lease payments	$ 12,874,384

Rent expense for the year ended September 30, 2018 totaled approximately $3,518,000.

Note 13 - Concentrations

Revenue

The Organization received significant portions of its total revenue for the year ended September 30, 2018 from the Arizona Department of Economic Security (DES) and the Regional Behavioral Health Authority (RBHA) through contracts that are renewed annually.

The percentages of total revenue and the amounts of accounts receivable (before the allowance for doubtful accounts) from DES and RBHA are as follows as of and for the year ended September 30, 2018:

	Total Revenue	Accounts Receivable
DES	20%	$ 1,054,859
RBHA	73%	271,432
Total	92%	$ 1,326,291

Note 14 - Employee Benefit Plans

Marc Community sponsors a defined contribution plan (the Plan) covering employees meeting plan qualifications. The Plan provides for employer contributions based primarily on employee participation. The total contributions made to the Plan by Marc Community were $0 for the year ended September 30, 2018.

Marc Community has a non-qualified deferred compensation plan (the Marc Community Non-Qualified 457b Plan) covering certain executives. The Marc Community Non-Qualified 457b Plan provides for employer contributions at the discretion of the board of directors of Marc Community. Employee deferrals are limited to 85% of annual compensation. Total contributions made to the Marc Community Non-Qualified 457b Plan by the Organization were $53,000 for the year ended September 30, 2018.

Partners in Recovery sponsors a 403(b) defined contribution plan (the 403(b) Plan) covering employees meeting plan qualifications. The 403(b) Plan provides for employer contributions based primarily on employee participation. The total contributions made to the 403(b) Plan by Partners in Recovery were approximately $232,000 for the year ended September 30, 2018.

Partners in Recovery has a non-qualified deferred compensation plan (the Partners in Recovery Non-Qualified 457b Plan) covering certain executives. The Partners in Recovery Non-Qualified 457b Plan provides for employer contributions at the discretion of the board of directors of Partners in Recovery. Employee deferrals are limited to the lesser of $15,000 or 100% of annual compensation. There have been no contributions to the Partners in Recovery Non-Qualified 457b Plan by Partners in Recovery for the year ended September 30, 2018.

Subsequent to year-end, the individual defined contribution plans for Marc Community and Partners in Recovery were terminated and the Organization created a new defined contribution plan to cover employees from both entities.

Note 15 - Contingencies

Periodically, the Organization is involved in legal proceedings arising in the normal course of operations. In the opinion of management based on consultations with legal counsel, losses, if any, from these matters are covered by insurance or are immaterial to the Organization's consolidated statement of financial position and consolidated statement of activities.

Note 16 - Fair Value Measurements

Certain assets and liabilities are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Organization develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk or liquidity profile of the asset or liability.

For assets and liabilities measured at fair value on a recurring basis, the fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety.

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

Investments

A significant portion of the Organization's investment assets are classified within Level 1 because they are comprised of open-end mutual funds with readily determinable fair values based on daily redemption values.

Derivative Financial Instrument

The Organization's derivative financial instrument described in Note 7 is recorded at fair value, which has been calculated based primarily on observable interest rates and yield curves for the term of the swap.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain assets could result in a different fair value measurement.

The following tables set forth by level within the fair value hierarchy related to the Organization's assets and liabilities that are measured at fair value as of September 30, 2018:

	Level 1	Level 2	Level 3	Total
Assets				
Mutual funds	$ 394,030	$ -	$ -	$ 394,030
Pooled funds held at a community foundation	-	32,310	-	32,310
	$ 394,030	$ 32,310	$ -	$ 426,340
Liabilities				
Derivative financial instrument	$ -	$ (106,206)	$ -	$ (106,206)

Note 17 - Income Taxes

The components of the income tax provision (benefit) are as follows as of September 30, 2018:

Current:	
Federal	$ -
State	-
	-
Deferred:	
Federal	(24,000)
State	(10,000)
Valuation allowance	34,000
	-
Total provision	$ -

The Organization's actual income tax (benefit) expense for the year ended September 30, 2018 differs from the expected amount computed by applying the statutory federal income tax rate of 21% to net (loss) income before income taxes for the following reasons:

Computed tax (benefit) expense at 21%	$ (24,000)
State taxes at 5.85%	(10,000)
Change in valuation allowance	34,000
	$ -

Deferred tax assets and liabilities are comprised of the following as of September 30, 2018:

Deferred tax assets:	
Net operating loss	$ 314,000
Deferred tax liabilities:	
Fixed assets	$ -
Net deferred tax asset before valuation allowance	314,000
Valuation allowance	(314,000)
Net deferred tax assets	$ -

As of September 30, 2018, the Organization has estimated federal and state net operating loss carryforwards (NOLs) of $1,493,767 which begin to expire in the year 2028.

For financial reporting purposes, a valuation allowance of $314,000 at September 30, 2018, has been established to offset deferred tax assets related to NOLs. Pursuant to income tax accounting guidance, the Organization has established a valuation allowance against the entire net deferred tax asset. The valuation allowance increased by $89,000 in 2018. The Organization will continue to evaluate tax assets and provide a valuation allowance until it is more likely than not to realize the tax benefit.

Note 18 - Subsequent Events

The Organization has evaluated subsequent events through September 26, 2019, the date the consolidated financial statements were available to be issued.

Subsequent to year end, a major funding source of the Organization cut funding by approximately $2,500,000.

Subsequent to year end, the Organization entered in to a 3-year contract for services with an approximate cost of $300,000 per year or approximately $900,000 over the course of the contract.

Subsequent to year end, the Organization changed their name to Copa Health, Inc.

Supplementary Information
September 30, 2018

Marc Community Resources, Inc. and Affiliates

Marc Community Resources, Inc. and Affiliates

Consolidating Statement of Financial Position

September 30, 2018

	Marc Community Resources, Inc. Advocates for the Disabled	TecMarc, Inc.	Foundation for People with Disabilities	Village at Oasis Park Phase I, Inc.	Village at Oasis Park Phase II, Inc.	Partners in Recovery, LLC	Eliminations	Consolidated
Assets								
Cash and cash equivalents	$ 10,465,377	$ 107,253	$ 416,401	$ 88,069	$ 28,350	$ 3,389,937	$ -	$ 14,495,387
Consumer trust funds	43,685	-	-	-	-	-	-	43,685
Accounts receivable, net	2,007,660	27,521	6,000	-	778	95,593	-	2,137,552
Due from related parties	2,037,894	167	7,933	-	-	405	(2,046,399)	-
Contributions receivable	132,446	-	-	-	-	-	-	132,446
Prepaid expenses and other	235,533	-	9,807	-	-	80,047	-	325,387
Investments	394,030	-	32,310	-	-	-	-	426,340
Investments in affiliates	381,794	-	-	-	-	-	(367,403)	14,391
Certificates of deposit	253,976	-	-	-	-	-	-	253,976
Property and equipment, net	20,301,792	30,596	-	2,384,652	2,089,883	3,583,965	-	28,390,888
Goodwill	2,881,145	-	-	-	-	-	-	2,881,145
Deposits	93,299	5,011	-	4,934	3,665	223,708	-	330,617
Total assets	$ 39,228,631	$ 170,548	$ 472,451	$ 2,477,655	$ 2,122,676	$ 7,373,655	$ (2,413,802)	$ 49,431,814
Liabilities and Net Assets								
Liabilities								
Consumer trust funds	$ 43,685	$ -	$ -	$ -	$ -	$ -	$ -	$ 43,685
Accounts payable	477,895	1,271	-	3,216	3,582	239,023	-	724,987
Due to related parties	8,924	1,463,579	500,479	10,452	28,184	34,781	(2,046,399)	-
Accrued liabilities	2,122,563	29,377	17,192	3,912	3,713	2,965,104	-	5,141,861
Deferred revenue	355,433	-	-	-	-	1,618,151	-	1,973,584
Deferred rent	119,537					679,911	-	799,448
Lease incentive obligation, net	-	-	-	-	-	360,439	-	360,439
Derivative financial instrument; interest rate swap	106,206	-	-	-	-	-	-	106,206
Notes payable	37,382	-	-	-	-	1,112,602	-	1,149,984
Bonds payable, less unamortized bond issuance costs of $304,701	12,530,444	-	-	-	-	-	-	12,530,444
Total liabilities	15,802,069	1,494,227	517,671	17,580	35,479	7,010,011	(2,046,399)	22,830,638
Net Assets								
Unrestricted	22,209,402	(1,324,679)	(85,111)	120,875	(27,103)	363,644	(366,403)	20,890,625
Common stock	-	1,000	-	-	-	-	(1,000)	-
Total unrestricted	22,209,402	(1,323,679)	(85,111)	120,875	(27,103)	363,644	(367,403)	20,890,625
Temporarily restricted	1,217,160	-	29,891	2,339,200	2,114,300	-	-	5,700,551
Permanently restricted	-	-	10,000	-	-	-	-	10,000
Total net assets (deficit)	23,426,562	(1,323,679)	(45,220)	2,460,075	2,087,197	363,644	(367,403)	26,601,176
Total liabilities and net assets	$ 39,228,631	$ 170,548	$ 472,451	$ 2,477,655	$ 2,122,676	$ 7,373,655	$ (2,413,802)	$ 49,431,814

Marc Community Resources, Inc. and Affiliates

Consolidating Statement of Activities

September 30, 2018

	Marc Community Resources, Inc. Advocates for the Disabled	TecMarc, Inc.	Foundation for People with Disabilities	Village at Oasis Park Phase I, Inc.	Village at Oasis Park Phase II, Inc.	Partners in Recovery, LLC	Eliminations	Consolidated
Revenue and Gains								
Governmental								
Arizona Department of Economic Security	$ 13,447,173	$ -	$ -	$ -	$ -	$ -	$ -	$ 13,447,173
Arizona Department of Health Services	16,995,887	-	-	-	-	32,725,023	-	49,720,910
City of Mesa	29,730	-	-	-	-	-	-	29,730
Total governmental revenue	30,472,790	-	-	-	-	32,725,023	-	63,197,813
Other								
Service contracts	464,894	-	-	-	-	-	-	464,894
Service fees	719,074	-	-	-	-	-	(505,371)	213,703
United Way contributions	24,000	-	-	-	-	-	-	24,000
Other contributions	202,391	-	175,850	-	-	689	-	378,930
Interest income	21,855	-	3,304	48	7	5,291	-	30,505
Gain/(loss) on disposition of property and equipment	(77,605)	-	-	-	-	5,875	-	(71,730)
Rental income	533,026	-	-	99,570	101,546	120,008	-	854,150
Loss from investments in affiliates	(879,638)	-	-	-	-	-	825,730	(53,908)
Change in value of derivative financial instrument	89,484	-	-	-	-	-	-	89,484
Other	1,726,191	147,540	-	2,225	1,917	2,093,404	(759,495)	3,211,782
Total other revenue and gains	2,823,672	147,540	179,154	101,843	103,470	2,225,267	(439,136)	5,141,810
Total revenue and gains	33,296,462	147,540	179,154	101,843	103,470	34,950,290	(439,136)	68,339,623
Expenses								
Program services								
Residential	6,987,083	-	-	-	-	-	-	6,987,083
Employment services	6,595,279	-	-	-	-	-	(5,700)	6,589,579
Day services	7,060,032	-	-	-	-	-	-	7,060,032
Home services	6,339,105	207,190	-	-	-	-	(46,637)	6,499,658
Other housing	177,674	-	-	205,842	211,252	-	-	594,768
Outpatient clinic	1,983,816	-	-	-	-	32,535,787	(573,808)	33,945,795
Total program services	29,142,989	207,190	-	205,842	211,252	32,535,787	(626,145)	61,676,915
Supporting Activities								
Management and general	4,905,574	-	335,278	-	-	1,799,844	(638,721)	6,401,975
Fundraising	45,373	-	-	-	-	-	-	45,373
Total supporting activities	4,950,947	-	335,278	-	-	1,799,844	(638,721)	6,447,348
Total expenses	34,093,936	207,190	335,278	205,842	211,252	34,335,631	(1,264,866)	68,124,263
Operating Income	(797,474)	(59,650)	(156,124)	(103,999)	(107,782)	614,659	825,730	215,360
Loss on refinancing	(158,856)	-	-	-	-	-	-	(158,856)
Distribution to/from affiliate	1,443,148	-	-	-	-	(1,443,148)	-	-
Change in Net Assets	486,818	(59,650)	(156,124)	(103,999)	(107,782)	(828,489)	825,730	56,504
Net Assets (Deficit), Beginning of Year	22,939,744	(1,264,029)	110,904	2,564,074	2,194,979	1,192,133	(1,193,133)	26,544,672
Net Assets (Deficit), End of Year	$ 23,426,562	$ (1,323,679)	$ (45,220)	$ 2,460,075	$ 2,087,197	$ 363,644	$ (367,403)	$ 26,601,176

Marc Community Resources, Inc. and Affiliates

Consolidating Schedule of Revenues and Expenses

Year Ended September 30, 2018

	RBHA						Non-RBHA	
	Outpatient				Residential			
	Seriously Mentally Ill Intensive Outpatient Services	Community Living	General Mental Health/ Substance Abuse (Clinic)	Community Service Agency: Employment	Seriously Mentally Ill Intensive Level II Services	Sub-Total RBHA Contract	Business Activities Unrelated to RBHA	Total
Revenue								
RBHA Revenue	$ 3,689,874	$ 4,979,812	$ 1,349,985	$ 4,875,902	$ 974,653	$ 15,870,226	$ -	$ 15,870,226
Other Revenue	294,380	761,941	340,334	601,857	104,859	2,103,371	1,347,212	3,450,583
Interest Income	-	-	-	-	-	-	21,855	21,855
Business Activities Unrelated to RBHA	-	-	-	-	-	-	48,996,959	48,996,959
Total Revenue	3,984,254	5,741,753	1,690,319	5,477,759	1,079,512	17,973,597	50,366,026	68,339,623
Expenses								
Clinical Services Expenses:								
Wages:								
BHT	1,592,056	2,510,441	-	-	568,731	4,671,228	-	4,671,228
BH professional	54,080	45,006	551,683	-	15,002	665,771	-	665,771
BH paraprofessional	124,800	16,380	-	-	5,460	146,640	-	146,640
Psychologist, Psychiatrists, NP's	-	-	430,970	-	-	430,970	-	430,970
CSA vocational specialists	-	-	-	2,910,011	-	2,910,011	-	2,910,011
Supervision	268,878	119,117	121,374	330,087	57,162	896,618	-	896,618
Subtotal labor	2,039,814	2,690,944	1,104,027	3,240,098	646,355	9,721,238	-	9,721,238
Employee-related	385,088	457,162	222,305	403,325	90,822	1,558,702	-	1,558,702
Operations	417,339	180,543	213,089	188,074	50,885	1,049,930	-	1,049,930
Quality/claims/informatics	381,126	294,381	180,556	132,106	73,187	1,061,356	-	1,061,356
Temp/contract labor	16,461	481,692	7,686	-	138,962	644,801	-	644,801
Professional/outside services	718	21,899	335	28,109	6,058	57,119	-	57,119
Travel/transportation	153,030	74,258	19,258	166,769	35,291	448,606	-	448,606
Facility/occupancy	287,612	183,272	92,274	185,345	96,609	845,112	-	845,112
Depreciation	56,721	114,119	59,308	190,794	24,093	445,035	-	445,035
Other clinical services expenses	79,174	139,762	49,855	286,221	61,272	616,284	-	616,284
Subtotal Clinical Services Expenses	3,817,083	4,638,032	1,948,693	4,820,841	1,223,534	16,448,183	-	16,448,183

Marc Community Resources, Inc. and Affiliates

Consolidating Schedule of Revenues and Expenses (continued)

Year Ended September 30, 2018

	RBHA						Non-RBHA	
	Outpatient				Residential			
	Seriously Mentally Ill Intensive Outpatient Services	Community Living	General Mental Health/ Substance Abuse (Clinic)	Community Service Agency: Employment	Seriously Mentally Ill Intensive Level II Services	Sub-Total RBHA Contract	Business Activities Unrelated to RBHA	Total
Business Activities Unrelated to RBHA	-	-	-	-	-	-	13,757,366	13,757,366
Administrative								
Salaries	244,167	351,224	103,950	234,898	67,012	1,001,252	-	1,001,252
Employee-related	42,675	61,386	18,168	41,805	11,712	175,746	-	175,746
Professional/outside services	32,432	46,652	13,807	41,282	8,901	143,074	-	143,074
Travel/transportation	11,700	16,829	4,981	15,731	3,211	52,452	-	52,452
Facility/occupancy	17,520	25,202	7,459	16,218	4,808	71,207	-	71,207
Depreciation	19,661	28,282	8,370	19,400	5,396	81,109	-	81,109
Other indirect expenses	114,183	164,247	48,611	134,873	31,338	493,252	-	493,252
Business activities unrelated to RBHA	-	-	-	-	-	-	36,059,479	36,059,479
Subtotal Administrative Expenses	482,338	693,822	205,346	504,207	132,378	2,018,092	36,059,479	38,077,571
Total Expenses	4,299,421	5,331,854	2,154,039	5,325,048	1,355,912	18,466,274	49,816,845	68,283,119
Increase (decrease) in Net Assets	$ (315,167)	$ 409,899	$ (463,720)	$ 152,711	$ (276,400)	$ (492,677)	$ 549,181	$ 56,504
FTE's - Clinical Services (by program)	32.49	202.38	21.38	50.00	27.49	333.74		
FTE's - Clinical Support (by program)	6.32	6.38	7.14	0.00	1.17	21.01		
FTE's - Administrative (by program)	1.90	2.71	0.81	19.04	0.53	24.99		

Consolidated Financial Statements
September 30, 2017

Marc Community Resources, Inc. and Affiliates

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Consolidated Financial Statements

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Directors
Marc Community Resources, Inc. and Affiliates
Mesa, Arizona

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Marc Community Resources, Inc. (a nonprofit organization) and Affiliates (collectively, the Organization), which comprise the consolidated statement of financial position as of September 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Marc Community Resources, Inc. and Affiliates as of September 30, 2017, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Report on Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental schedules on pages 22-25 are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Eide Bailly LLP

Phoenix, Arizona
August 15, 2018

Marc Community Resources, Inc. and Affiliates

Consolidated Statement of Financial Position

September 30, 2017

Assets	
Cash and cash equivalents	$ 10,320,065
Consumer trust funds	69,972
Accounts receivable, net	2,202,430
Due from related parties	95,780
Contributions receivable	135,443
Notes receivable	16,782
Prepaid expenses and other	353,495
Investments	612,053
Investments in affiliates	461,704
Certificates of deposit	252,836
Property and equipment, net	26,218,394
Deposits	91,336
Total assets	$ 40,830,290
Liabilities and Net Assets	
Liabilities	
Consumer trust funds	$ 69,972
Accounts payable	719,151
Accrued liabilities	2,309,689
Deferred revenue	2,168,556
Derivative financial instrument: interest rate swap	195,690
Notes payable	582,542
Bonds payable, less unamortized bond issuance costs of $163,340	8,240,018
Total liabilities	14,285,618
Net Assets	
Unrestricted	20,639,561
Temporarily restricted	5,895,111
Permanently restricted	10,000
Total net assets	26,544,672
Total liabilities and net assets	$ 40,830,290

Marc Community Resources, Inc. and Affiliates

Consolidated Statement of Activities

Year Ended September 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenue, Support and Gains				
Governmental				
Arizona Department of Economic Security	$ 12,705,591	$ -	$ -	$ 12,705,591
Arizona Department of Health Services	15,693,979	-	-	15,693,979
City of Mesa	27,412	-	-	27,412
Total governmental revenue	28,426,982	-	-	28,426,982
Other				
Service contracts	398,123	-	-	398,123
Service fees	808,548	-	-	808,548
Leisure World service contract	150,114	-	-	150,114
United Way contributions	6,999	20,997	-	27,996
Other contributions	131,277	114,445	-	245,722
In-kind contributions	18,387	-	-	18,387
Interest income	19,356	125	-	19,481
Gain on disposition of property and equipment	16,500	-	-	16,500
Rental income	693,888	-	-	693,888
Gain on investments in affiliates	84,667	-	-	84,667
Change in value of derivative financial instrument	206,360	-	-	206,360
Other	1,506,145	-	-	1,506,145
Total other revenue and gains	4,040,364	135,567	-	4,175,931
Net assets released from restrictions	86,169	(86,169)	-	-
Total revenue, support and gains	32,553,515	49,398	-	32,602,913
Expenses				
Program services				
Residential	6,827,184	-	-	6,827,184
Employment services	6,126,482	-	-	6,126,482
Day services	6,664,329	-	-	6,664,329
Home services	5,272,393	-	-	5,272,393
Other housing	589,125	-	-	589,125
Outpatient clinic	2,156,973	-	-	2,156,973
Total program services	27,636,486	-	-	27,636,486
Supporting activities				
Management and general	4,411,500	-	-	4,411,500
Fundraising	94,560	-	-	94,560
Total supporting activities	4,506,060	-	-	4,506,060
Total expenses	32,142,546	-	-	32,142,546
Change in Net Assets	410,969	49,398	-	460,367
Net Assets, Beginning of Year	20,228,592	5,845,713	10,000	26,084,305
Net Assets, End of Year	$ 20,639,561	$ 5,895,111	$ 10,000	$ 26,544,672

Marc Community Resources, Inc. and Affiliates

Consolidated Statement of Functional Expenses

Year Ended September 30, 2017

	Program Services							Supporting Activities			
	Residential	Employment Services	Day Services	Home Services	Other Housing	Outpatient Clinic	Total Program Services	Management and General	Fundraising	Total Supporting Activities	Total
Salaries	$ 4,334,570	$ 3,970,132	$ 4,078,750	$ 3,555,916	$ -	$ 1,520,944	$ 17,460,312	$ 2,312,583	$ 74,138	$ 2,386,721	$ 19,847,033
Employee-Related Expenses	712,364	559,365	715,098	572,161	-	277,094	2,836,082	395,636	13,577	409,213	3,245,295
Occupancy	677,993	290,353	627,310	222,480	287,783	119,668	2,225,587	162,079	1,754	163,833	2,389,420
Professional Fees	178,316	74,711	77,822	449,708	48,808	16,090	845,455	341,358	2,294	343,652	1,189,107
Transportation	322,324	207,959	307,830	106,582	8	30,087	974,790	122,619	(114)	122,505	1,097,295
Supplies	162,743	515,212	225,368	114,925	7,382	70,233	1,095,863	330,197	386	330,583	1,426,446
Equipment Rental	22,608	60,430	49,061	15,474	-	11,888	159,461	42,567	693	43,260	202,721
Depreciation	229,987	302,374	442,825	151,817	221,080	74,659	1,422,742	185,445	901	186,346	1,609,088
Other Expenses	186,279	145,946	140,265	83,330	24,064	36,310	616,194	519,016	931	519,947	1,136,141
Total expenses	$ 6,827,184	$ 6,126,482	$ 6,664,329	$ 5,272,393	$ 589,125	$ 2,156,973	$ 27,636,486	$ 4,411,500	$ 94,560	$ 4,506,060	$ 32,142,546

Operating Activities	
Change in net assets	$ 460,367
Adjustments to reconcile net assets to net cash provided by operating activities	
Interest expense attributable to unamortized bond issuance costs	(21,156)
Interest income on notes receivable	(282)
Net unrealized gain on investments	(88,185)
Change in value on derivative financial instruments	(206,361)
Net gain on investments in affiliates	(84,667)
Gain on disposition of property and equipment	(16,500)
Depreciation	1,609,088
Change in allowance for doubtful accounts	20,336
Change in assets and liabilities	
Accounts receivable	(544,384)
Due from related parties	(20,118)
Contributions receivable	(102,743)
Prepaid expenses and other	112,390
Deposits	(25,317)
Accounts payable	(311,337)
Accrued liabilities	(97,930)
Deferred revenue	489,379
Net Cash from Operating Activities	1,172,580
Cash Flows from Investing Activities	
Purchases of investments	(68,709)
Proceeds from sale of investments	289,011
Purchases of property and equipment	(581,419)
Net Cash used for Investing Activities	(361,117)
Cash Flows from Financing Activities	
Proceeds from borrowings on notes payable	525,000
Payments on notes payable	(129,231)
Payments on bonds payable	(243,171)
Net Cash from Financing Activities	152,598
Net Change in Cash and Cash Equivalents	964,061
Cash and Cash Equivalents, Beginning of Year	9,356,004
Cash and Cash Equivalents, End of Year	$ 10,320,065
Supplmental Disclosure of Cash Flow Information	
Cash paid for interest	$ 362,766
Acquisition of vehicle through note payable	$ 47,202

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Operations

Marc Community Resources, Inc. and Affiliates (Marc Community) 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 Community provides services throughout primarily Maricopa County, Arizona. During the year ended June 30, 2010, Marc Community acquired Advocates for the Disabled, Inc. (Advocates) by an action by the Board of Directors of Advocates granting Marc Community the sole power to appoint directors to the Advocates' Board. Advocates has become an inactive organization.

TecMarc, Inc. (TecMarc) is an Arizona corporation and was incorporated in March 2008 to conduct the business of information technology sales and support and property management services. TecMarc has 1,000 shares of authorized common stock, all of which have been issued to Marc Community at $1 per share.

The Foundation for People with Disabilities (the Foundation) is a nonprofit corporation, incorporated in the state of Arizona on January 29, 1988, to provide housing for disabled individuals in residential settings and employment training facilities throughout Maricopa County. Marc Community is the sole member of the Foundation's Board of Directors. During the year ended June 30, 2010, the Foundation transferred substantially all of its property to Marc Community to facilitate the completion of bond financing.

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

The Village at Oasis Park — Phase II, Inc. (the Village II) is a nonprofit corporation and was incorporated in the state of Arizona in August 2010 to provide housing for disabled individuals. The Village II's Board of Directors consists of the Executive Committee of Marc Community and other individuals selected by the Executive Committee of Marc Community.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Marc Community, Advocates, TecMarc, the Foundation, the Village, and the Village II (collectively, the Organization). All significant inter-organization transactions have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Investments

The Organization reports investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. Investments at September 30, 2017 totaled approximately $612,000, all of which were invested in mutual funds. Net investment income is reported in the statement of activities and consists of interest and dividend income and realized and unrealized gains and losses.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term nature of the items. The carrying value of promises to give due in more than one year is based on the discounted net present value of the expected future cash receipts, and approximates fair value. The fair values of bonds and notes payable are based on the stated interest rates, and approximate their carrying values.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and foundations supportive of the Organization's mission.

Property and Equipment

Purchased property and equipment over $5,000 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. 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. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended September 30, 2017.

Deferred Revenue

Each month, the Organization receives block payment funding for behavioral health services from the Regional Behavioral Health Authority (RBHA) in Maricopa County. These funds are considered earned if total service claims generated equal or exceed the block payments. If service claims are insufficient, the RBHA has the contractual right to recoup the funding or characterize the deficiency as deferred revenue with an authorization to use the funding in the next fiscal year. For the year ended September 30, 2017, the Organization has a service claim deficiency balance of approximately $2,000,000. This amount is classified as deferred revenue on the consolidated statement of financial position.

Interest-Rate Swap

The Organization uses an interest-rate swap to mitigate interest-rate risk on bonds payable (Note 10). The related liability or asset is reported at fair value in the statement of financial position, and unrealized gains or losses are included in the statement of activities.

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, unless the likelihood that the Organization will not fulfill the conditions is remote, in which case the contribution is recognized when the promise is made. 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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Organization's board of directors.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Organization. The restrictions stipulate that resources be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of the agreements.

Change in Accounting Policy

As of October 1, 2016, the Organization adopted the provisions of Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* This update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability.

The Organization has adopted this standard as management believes this presentation more accurately reflects the costs of borrowing for arrangements in which debt issuance costs are incurred.

Bond Issuance costs

Bond issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which is a reasonable estimate of the effective interest method. Bond issuance costs are included within long-term debt in the consolidated statement of financial position. Amortization of bond issuance costs is included in interest expense in the accompanying consolidated financial statements.

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.

Income Tax Status

Marc Community, Advocates, the Foundation, the Village, and the Village II are organized as Arizona nonprofit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). They qualify for charitable contributions under Section 170. Marc Community, Advocates, the Foundation and the Village have been determined not to be private foundations under Section 509(a)(2), 509(a)(1), 509(a)(3) and 509(a)(3), respectively. Management has determined the Village II is not a private foundation in accordance with Section 509(a)(3). The organizations are annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Advocates, the Foundation, the Village and the Village II have determined they have no unrelated business taxable income and have not filed the Exempt Organization Business Income Tax Returns (IRS Form 990-T), or its Arizona equivalent, Form 99-T. Marc Community has unrelated business taxable income and has filed the Exempt Organization Business Income Tax Returns (IRS Form 990-T), and its Arizona equivalent, Form 99-T.

TecMarc accounts for income taxes under the liability method pursuant to income tax accounting guidance. Under the liability method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax basis of assets and liabilities using the enacted rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established against the deferred tax asset for the uncertainty of TecMarc's ability to use the net operating tax loss carryforwards in the future.

Management believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The organizations would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. Marc Community and TecMarc's income tax filings required by federal and state authorities are no longer subject to tax examination for years ending before September 30, 2014.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02 to improve financial reporting about leasing transactions (Topic 842). The ASU affects all lease transactions. Lessors will classify leases as either a sales-type, direct financing, or operating lease. In a sales-type lease, the lessor transfers control of the underlying asset to the lessee. At lease commencement, the lessor should derecognize the leased asset and record its net investment in the lease. The net investment in the lease consists of a lease receivable and the unguaranteed residual asset. In a direct financing lease, the lessor should derecognize the leased asset underlying the lease and record a net investment in the lease at lease commencement. The net investment in the lease should be measured in the same manner as a sales-type lease adjusted for selling profit and initial direct costs. An operating lease is neither a sale nor financing of an asset. The lessor should keep the asset underlying the lease on its balance sheet and continue to depreciate the asset based on its useful life. Rental revenue should be recognized on a straight-line basis. The Organization has several leasing transactions. The amendments in this update are effective for years beginning after December 15, 2019. The Organization is currently evaluating the impact of adopting ASU 2016-02 and has not determined the effect to the consolidated financial statements.

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14 to improve presentation of financial statements for not-for-profit entities. The ASU affects all not-for-profit entities. The main provisions of this Update that will impact the Organization include:

- Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. The not-for-profits will report amounts for net assets with donor restrictions and net assets without donor restrictions. They will also be required to present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes.
- All not-for-profits will now be required to disclose an analysis of expenses by both functional and natural classifications.
- All not-for-profits will have to add disclosures regarding how they manage liquidity and information that communicates the availability of financial assets to meet cash needs for general expenditures.

This new standard will be effective for years beginning after December 15, 2017, or October 1, 2018 for the Organization. The standard requires retrospective application.

Note 2 - Accounts Receivable and Credit Policy

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectable 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. The Organization does not require collateral on accounts receivable balances and does not generally charge interest on past due balances. At September 30, 2017, the allowance was approximately $52,000.

Note 3 - Contributions Receivable

Contributions receivable at September 30, 2017 were $135,443. All contributions receivable were due in less than one year and management has determined that there is no allowance for noncollectible contributions.

Note 4 - Notes Receivable

During the year ended September 30, 2017 the Organization entered into a note receivable agreement with a former executive, which is collateralized by a vehicle. The note carries interest at approximately 2% and is expected to be collected within one year. The Organization evaluates the collectability of the balance based upon historical experience and the specific circumstances of individual notes, with an allowance for uncollectible amounts being provided if necessary. As of September 30, 2017, management determined that there was no allowance necessary.

Note 5 - Conditional Promises to Give

During the years ended June 30, 2007 and 2006, the Organization received conditional promises to give as part of agreements with Value Options (Magellan replaced Value Options as the RBHA contracted for Maricopa County during the year ended June 30, 2008. Magellan was replaced by Mercy Maricopa Integrated Care during the year ended June 30, 2014). Under the 2007 agreement, unrestricted title to two single-family residences, with an estimated value of $607,000 at the date of the agreements, will be transferred to the Organization if certain conditions are met. Under the 2006 agreement, unrestricted title to one single-family residence, with an estimated value of $300,000 at the date of the agreement, will be transferred to the Organization if certain conditions are met. The condition for the transfer of title is that the Organization functions as landlord of the residences for a period of twenty-five years. During this period, the Organization will collect rent from the tenants and will be responsible for repairs and maintenance on the residences. Once all conditions have been met, the Organization will recognize the fair value of the property in the consolidated financial statements.

Note 6 - Property and Equipment

Property and equipment consisted of the following at September 30, 2017:

Land	$ 4,636,810
Buildings	27,025,526
Leasehold improvements	2,599,739
Vehicles	1,154,511
Furniture and equipment	3,225,249
Construction in progress	822,189
Total property and equipment	39,464,024
Less accumulated depreciation	(13,245,630)
Property and equipment, net	$ 26,218,394

Depreciation expense for the year ended September 30, 2017 totaled approximately $1,609,000.

In June 2010, the City of Mesa transferred title to two residential properties to the Organization. The transfer agreements stipulate that the properties must be used as affordable rental housing and that the properties cannot be sold without written approval from the City of Mesa for twenty years from the date of the transfers. Approximately $233,000 of temporarily restricted contribution revenue was recognized by the Organization during the year ended June 30, 2010 related to the transfer of these properties.

In April 2011, the City of Mesa transferred title to four residential properties to the Organization. The transfer agreements stipulate that the properties must be used as affordable rental housing and that the properties cannot be sold without written approval from the City of Mesa for twenty years from the date of the transfers. Approximately $355,000 of temporarily restricted contribution revenue was recognized by the Organization during the year ended June 30, 2011 related to the transfer of these properties.

Note 7 - Investments in Affiliates

The balance of investments in and receivables from affiliates consisted of the following at September 30, 2017:

Partners in Recovery, LLC	
Original investment in Partners in Recovery, LLC (PIR)	$ 105,915
Marc Community's share of accumulated PIR net income	341,398
	447,313
Western Health and Wellness	
Original investment in Western Health and Wellness	15,000
Marc Community's share of accumulated net loss	(609)
	14,391
Total investments in affiliates	$ 461,704

Partners in Recovery, LLC

During the year ended June 30, 2009, Marc Community entered into an investment in PIR, a nonprofit organization, in order to provide behavioral health services. PIR is one of four Provider Network Organizations (PNO) that is contracted with the Regional Behavioral Health Authority (RBHA) to provide behavioral health services to adults in Maricopa County. Marc Community had a 50% membership interest in PIR for the year ended June 30, 2013. This membership interest decreased to 33.3% during the year ended June 30, 2014 when a new member was added to PIR. While Marc Community does not have control of PIR, it does have the ability to exercise significant influence over PIR and has an ongoing economic interest in the net assets of PIR. Accordingly, the Organization reports Marc Community's interest in the net assets of PIR, as well as any change in the net assets of PIR, in a manner similar to the equity method of accounting for investments in common stock.

Marc Community's investment in PIR at September 30, 2017 was approximately $447,000, which includes Marc Community's original investment of approximately $106,000, plus Marc Community's share of PIR's change in net assets of approximately $85,000 for the year ended September 30, 2017.

Summarized financial statement information of PIR as of and for the year ended September 30, 2017 is as follows:

Statement of Financial Position	
Total assets	$ 6,915,139
Total liabilities	$ 5,725,765
Unrestricted net assets	1,189,374
Total liabilities and unrestricted net assets	$ 6,915,139
Statement of Activities	
Revenue	$ 31,960,468
Expenses	
Program services	30,268,998
Supporting activities	1,437,444
Total expenses	31,706,442
Change in unrestricted net assets	254,026
Marc Community's ownership percentage	33.3%
Marc Community's share of change in net assets	$ 84,667

Note 8 - Notes Payable – Bank Line of Credit

The Organization has a $900,000 revolving line of credit with a bank which bears interest at the bank's prime rate (3.00% at September 30, 2017). The balance outstanding cannot exceed 70% of the balance of outstanding receivables (as defined). This line of credit is secured primarily by receivables and furniture and equipment of the Organization and expires August 31, 2018. The outstanding balance on the line of credit as of September 30, 2017 was $0.

The line of credit requires 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.

Note 9 - Derivative Financial Instrument: Interest Rate Swap

In July 2009, the Organization entered into an interest rate swap agreement that effectively converted approximately $7,500,000 of the Organization's LIBOR-based variable-rate debt to a fixed rate. The counterparty to the swap agreement is the bank (a major U.S. financial institution) that holds the Organization's LIBOR-based variable-rate bonds payable. Under the swap agreement, the Organization pays interest at a fixed rate of 4.80% and, in return, receives interest at a variable rate based on 65% of the one-month LIBOR rate (1.23% at September 30, 2017) plus a margin of 1.75%. The net effect of the swap is to fix the interest rate on $6,900,000 of the Organization's LIBOR-based variable-rate bond payable at 4.80%.

The interest rate swap agreement qualifies as a cash flow hedge, and accordingly, the fair value of the interest rate swap agreement, which is adjusted regularly, is recorded in the Organization's consolidated statement of financial position as an asset or liability, as necessary, with a corresponding adjustment to other charges. The fair value of the Organization's interest rate swap at September 30, 2017 was a liability totaling approximately $190,000. The unrealized holding gain on this interest rate swap was approximately $191,000 for the year ended September 30, 2017.

In August 2014, the Organization entered into an interest rate swap agreement that effectively converted approximately $2,800,000 of the Organization's LIBOR-based variable-rate debt to a fixed rate. The counterparty to the swap agreement is the bank (a major U.S. financial institution) that holds the Organization's LIBOR-based variable-rate bonds payable. Under the swap agreement, the Organization pays interest at a fixed rate of 3.50% and, in return, receives interest at a variable rate based on 69.50% of the one-month LIBOR rate (1.23% at September 30, 2017) plus a margin of 1.40%. The net effect of the swap is to fix the interest rate on $2,800,000 of the Organization's LIBOR-based variable-rate bond payable at 3.50%.

The interest rate swap agreement qualifies as a cash flow hedge, and accordingly, the fair value of the interest rate swap agreement, which is adjusted regularly, is recorded in the Organization's consolidated statement of financial position as an asset or liability, as necessary, with a corresponding adjustment to other charges. The fair value of the Organization's interest rate swap at September 30, 2017 was a liability totaling approximately $6,000. The unrealized holding gain on this interest rate swap was approximately $15,000 for the year ended September 30, 2017.

Note 10 - Notes Payable

Notes payable consisted of the following at September 30, 2017:

Note payable to a bank, due in monthly installments of approximately $10,000, including interest at 3.49%, final payment in November 2017; collateralized by software and equipment.	$	20,014
Note payable to a bank, due in monthly installments of approximately $3,200, including interest at 3.91%, final payment in March 2024; collateralized by the property.		516,039
Note payable to finance company, due in monthly installments of approximately $800, including interest at 1.90%, final payment in August 2022; collateralized by a vehicle.		46,489
Total notes payable	$	582,542

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

Year Ending September 30,		
2018	$	47,332
2019		28,218
2020		29,150
2021		30,115
2022		30,295
Thereafter		417,432
Total notes payable	$	582,542

Interest expense for the year ended September 30, 2017 totaled approximately $363,000, which includes interest on the notes payable above and on the bonds payable (Note 10). In addition, approximately $21,000 of interest expense for the year ended September 30, 2017 was interest expense attributable to amortization of bond issuance costs.

Note 11 - Bonds Payable

In December 2013, the Organization entered into loan agreements with the Industrial Development Authority of the County of Maricopa to issue Direct Purchase Revenue Bonds, Series 2013A (Series 2013A) in the amount of $6,900,000 for a term of twenty-five years, and to issue Direct Purchase Revenue Bonds, Series 2013B (Series 2013B) in the amount of $2,815,000 for a term of twenty-five years. Series 2013A and Series 2013B (collectively, "the Bonds") are collateralized by certain real property as set forth in the agreements. The Organization borrowed $6,800,000 under Series 2013A, and approximately $6,121,000 was outstanding at September 30, 2017. The Organization borrowed approximately $2,300,000 under Series 2013B, and approximately $2,283,000 was outstanding at September 30, 2017. The issuance of these bonds paid off the balance of the Community Services Facilities Bond, Series 2009A which had an outstanding balance of approximately $6,845,000 at June 30, 2013.

Interest on the Bonds is payable monthly under variable interest rate provisions. Series 2013A is due in monthly principal amounts of approximately $17,000 to $35,000 through July 2039. Series 2013A bears interest at 65% of the one-month LIBOR rate (1.23% at September 30, 2017) plus 1.75%. Series 2013A is subject to an interest rate swap agreement (Note 8). Series 2013B is due in monthly principal payments starting in February 2017 in amounts of approximately $6,000 to $24,000 through July 2039. Series 2013B bears interest at 65% of the one-month LIBOR rate (1.23% at September 30, 2017) plus 1.75%.

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

Year Ending September 30,	
2018	$ 254,830
2019	266,490
2020	277,997
2021	291,061
2022	304,723
Thereafter	7,008,257
Less unamortized bond issuance costs	(163,340)
Total bonds payable	$ 8,240,018

The Organization is required to maintain certain net asset, liquidity, and indebtedness ratios, and must comply with other general covenants of the loan agreement. As of September 30, 2017, the Organization was in compliance with those requirements.

Note 12 - Restricted Net Assets

Temporarily restricted net assets consisted of the following at September 30, 2017:

Restrictions on donated vehicles and property	$ 1,391,189
Housing for low income residents	4,453,500
Time restrictions on contributions receivable	20,997
Other	29,425
Total temporarily restricted net assets	$ 5,895,111

Temporarily restricted net assets released from restriction include:

Restrictions on donated vehicles and property	$ 60,969
Time restrictions on contributions receivable	25,200
Total temporarily restricted net assets	$ 86,169

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

Note 13 - Commitments

The Organization leases office space, residential houses, vehicles, and equipment under various non-cancelable operating leases that expire at various dates through March 2022. Several leases have renewal options. The Organization also leases residential houses and equipment under various month-to-month leases.

Future minimum lease payments under non-cancelable operating leases with initial or remaining terms in excess of one year are scheduled as follows:

Year Ending September 30,	
2018	$ 868,256
2019	661,617
2020	377,483
2021	306,741
2022	145,359
Thereafter	20,814
Total future minimum lease payments	$ 2,380,270

Rent expense for the year ended September 30, 2017 totaled approximately $1,232,000.

Note 14 - Concentrations

Revenue

The Organization received significant portions of its total revenue for the year ended September 30, 2017 from the Arizona Department of Economic Security (DES) and the Regional Behavioral Health Authority (RBHA) through contracts that are renewed annually.

The percentages of total revenue and the amounts of accounts receivable (before the allowance for doubtful accounts) from DES and RBHA are as follows as of and for the year ended September 30, 2017:

	Total Revenue	Accounts Receivable
DES	39%	$ 1,061,995
RBHA	48%	292,263
Total	87%	$ 1,354,258

Note 15 - 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 $0 for the year ended September 30, 2017.

The Organization has a non-qualified deferred compensation plan (the Non-Qualified 457b Plan) covering certain executives. The Non-Qualified 457b Plan provides for employer contributions at the discretion of the board of directors of the Organization. Employee deferrals are limited to 85% of annual compensation. Total contributions made to the Non-Qualified 457b Plan by the Organization were $66,000 for the year ended September 30, 2017.

Note 16 - Related Party Transactions

Related party transactions not elsewhere disclosed are as follows:

During the year ended September 30, 2017, Marc Community charged PIR for office space, programmatic services, and administrative services, including accounting and management services. Additionally, PIR reimbursed Marc Community for various expenses paid by Marc Community on behalf of PIR. Marc Community received a total of approximately $1,174,000 for the year ended September 30, 2017, of which, approximately $96,000 was due from related parties at September 30, 2017.

Note 17 - Contingencies

Periodically, the Organization is involved in legal proceedings arising in the normal course of operations. In the opinion of management based on consultations with legal counsel, losses, if any, from these matters are covered by insurance or are immaterial to the Organization's consolidated statement of financial position and consolidated statement of activities.

Note 18 - Fair Value Measurements

Certain assets and liabilities are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Organization develops inputs using the best information available in the circumstances.

For assets and liabilities measured at fair value on a recurring basis, the fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety.

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

Investments

A significant portion of the Organization's investment assets are classified within Level 1 because they are comprised of open-end mutual funds with readily determinable fair values based on daily redemption values.

Derivative Financial Instrument

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

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain assets could result in a different fair value measurement.

The following tables set forth by level within the fair value hierarchy related to the Organization's assets and liabilities that are measured at fair value as of September 30, 2017:

	Level 1	Level 2	Level 3	Total
Mutual funds	$ 580,440	$ -	$ -	$ 580,440
Pooled funds held at a community foundation	-	31,613	-	31,613
Derivative financial instrument	-	(195,690)	-	(195,690)

Note 19 - Income Taxes

The components of the income tax provision (benefit) are as follows as of September 30, 2017:

Current:	
Federal	$ -
State	-
	-
Deferred:	
Federal	(3,000)
State	(26,000)
Valuation allowance	29,000
	-
Total provision	$ -

The Organization's actual income tax (benefit) expense for the year ended September 30, 2017 differs from the expected amount computed by applying the statutory federal income tax rate of 15% to net (loss) income before income taxes for the following reasons:

Computed tax (benefit) expense at 15%	$ (3,000)
State taxes	(26,000)
Change in valuation allowance	29,000
	$ -

Deferred tax assets and liabilities are comprised of the following as of September 30, 2017:

Deferred tax assets:	
Net operating loss	$ 225,000
Deferred tax liabilities:	
Fixed assets	$ -
Net deferred tax asset before valuation allowance	225,000
Valuation allowance	(225,000)
Net deferred tax assets	$ -

As of September 30, 2017, the Organization has estimated federal and state net operating loss carryforwards (NOLs) of $1,400,000 and $760,000, respectively, which begin to expire in the year 2028.

For financial reporting purposes, a valuation allowance of $225,000 at September 30, 2017, has been established to offset deferred tax assets related to NOLs. Pursuant to income tax accounting guidance, the Organization has established a valuation allowance against the entire net deferred tax asset. The valuation allowance increased by $19,000 in 2017. The Organization will continue to evaluate tax assets and provide a valuation allowance until it is more likely than not to realize the tax benefit.

The Organization does not expect a significant change with respect to unrecognized tax benefits within the next 12 months.

The Organization files income tax returns with federal and state jurisdictions. The Organization is not currently under audit in any jurisdiction.

Note 20 - Subsequent Events

As of October 6, 2017, the Organization bought out the remaining equity partners and is now the sole member of Partners in Recovery, LLC.

In April 2018, the Organization refinanced the bond agreements with the Industrial Development Authority of the County of Maricopa and issued Direct Purchase Revenue Bonds, Series 2018A in the amount of $8,852,000; Series 2018B in the amount of $4,657,000; and Series 2016C in the amount of $3,100,000. The Series are collateralized by certain real property as set forth in the agreements. The proceeds from the refinance were used to pay off the Organization's line of credit.

Supplementary Information
September 30, 2017

Marc Community Resources, Inc. and Affiliates

Marc Community Resources, Inc. and Affiliates

Consolidating Statement of Financial Position

September 30, 2017

	Marc Community Resources, Inc. Advocates for the Disabled	TecMarc, Inc.	Foundation for People with Disabilities	Village at Oasis Park Phase I, Inc.	Village at Oasis Park Phase II, Inc.	Eliminations	Consolidated
Assets							
Cash and cash equivalents	$ 9,848,115	$ 99,318	$ 220,349	$ 109,278	$ 43,005	$ -	$ 10,320,065
Consumer trust funds	69,972	-	-	-	-	-	69,972
Accounts receivable, net	2,172,669	28,611	69,653	-	1,150	(69,653)	2,202,430
Due from related parties	1,691,939	3,884	-	-	-	(1,600,043)	95,780
Contributions receivable	135,443	-	-	-	-	-	135,443
Notes receivable	16,782	-	-	-	-	-	16,782
Prepaid expenses and other	343,215	2,969	7,311	-	-	-	353,495
Investments	580,440	-	31,613	-	-	-	612,053
Investments in affiliates	462,704	-	-	-	-	(1,000)	461,704
Certificates of deposit	252,836	-	-	-	-	-	252,836
Property and equipment, net	21,553,871	38,408	-	2,460,525	2,165,590	-	26,218,394
Deposits	70,573	4,719	-	12,321	3,723	-	91,336
Total assets	$ 37,198,559	$ 177,909	$ 328,926	$ 2,582,124	$ 2,213,468	$ (1,670,696)	$ 40,830,290
Liabilities and Net Assets							
Liabilities							
Consumer trust funds	$ 69,972	$ -	$ -	$ -	$ -	$ -	$ 69,972
Accounts payable	699,577	6,356	-	6,723	7,182	(687)	719,151
Due to related parties	-	1,406,770	180,172	6,333	6,081	(1,599,356)	-
Accrued liabilities	2,302,460	28,812	37,850	4,994	5,226	(69,653)	2,309,689
Deferred revenue	2,168,556	-	-	-	-	-	2,168,556
Derivative financial instrument	195,690	-	-	-	-	-	195,690
Notes payable	582,542	-	-	-	-	-	582,542
Bonds payable, less unamortized bond issuance costs of $163,340	8,240,018	-	-	-	-	-	8,240,018
Total liabilities	14,258,815	1,441,938	218,022	18,050	18,489	(1,669,696)	14,285,618
Net Assets							
Unrestricted	21,527,558	(1,265,029)	71,479	224,874	80,679	-	20,639,561
Common stock	-	1,000	-	-	-	(1,000)	-
Total unrestricted	21,527,558	(1,264,029)	71,479	224,874	80,679	(1,000)	20,639,561
Temporarily restricted	1,412,186	-	29,425	2,339,200	2,114,300	-	5,895,111
Permanently restricted	-	-	10,000	-	-	-	10,000
Total net assets (deficit)	22,939,744	(1,264,029)	110,904	2,564,074	2,194,979	(1,000)	26,544,672
Total liabilities and net assets	$ 37,198,559	$ 177,909	$ 328,926	$ 2,582,124	$ 2,213,468	$ (1,670,696)	$ 40,830,290

Marc Community Resources, Inc. and Affiliates

Consolidating Statement of Activities

September 30, 2017

	Marc Community Resources, Inc. Advocates for the Disabled	TecMarc, Inc.	Foundation for People with Disabilities	Village at Oasis Park Phase I, Inc.	Village at Oasis Park Phase II, Inc.	Eliminations	Consolidated
Revenue and Gains							
Governmental							
Arizona Department of Economic Security	$ 12,705,591	$ -	$ -	$ -	$ -	$ -	$ 12,705,591
Arizona Department of Health Services	15,693,979	-	-	-	-	-	15,693,979
City of Mesa	27,412	-	-	-	-	-	27,412
Total governmental revenue	28,426,982	-	-	-	-	-	28,426,982
Other							
Service contracts	398,123	-	-	-	-	-	398,123
Service fees	808,548	-	-	-	-	-	808,548
Leisure World service contract	150,114	-	-	-	-	-	150,114
United Way contributions	27,996	-	-	-	-	-	27,996
Other contributions	213,831	-	31,891	-	-	-	245,722
In-kind contributions	-	-	18,387	-	-	-	18,387
Interest income	16,387	-	2,996	58	40	-	19,481
Gain on disposition of property and equipment	16,500	-	-	-	-	-	16,500
Rental income	498,919	-	-	97,497	97,472	-	693,888
Gain from investments in affiliates	84,667	-	-	-	-	-	84,667
Change in value of derivative financial instrument	206,360	-	-	-	-	-	206,360
Other	1,477,530	114,394	-	1,556	2,354	(89,689)	1,506,145
Total other revenue and gains	3,898,975	114,394	53,274	99,111	99,866	(89,689)	4,175,931
Total revenue and gains	32,325,957	114,394	53,274	99,111	99,866	(89,689)	32,602,913
Expenses							
Program services							
Residential	6,827,184	-	-	-	-	-	6,827,184
Employment services	6,126,482	-	-	-	-	-	6,126,482
Day services	6,664,329	-	-	-	-	-	6,664,329
Home services	5,140,155	221,927	-	-	-	(89,689)	5,272,393
Other housing	192,402	-	-	187,762	208,961	-	589,125
Outpatient clinic	2,156,973	-	-	-	-	-	2,156,973
Total program services	27,107,525	221,927	-	187,762	208,961	(89,689)	27,636,486
Supporting Activities							
Management and general	4,275,671	-	135,829	-	-	-	4,411,500
Fundraising	94,560	-	-	-	-	-	94,560
Total supporting activities	4,370,231	-	135,829	-	-	-	4,506,060
Total expenses	31,477,756	221,927	135,829	187,762	208,961	(89,689)	32,142,546
Change in Net Assets	848,201	(107,533)	(82,555)	(88,651)	(109,095)	-	460,367
Net Assets (Deficit), Beginning of Year	22,091,543	(1,156,496)	193,459	2,652,725	2,304,074	(1,000)	26,084,305
Net Assets (Deficit), End of Year	$ 22,939,744	$ (1,264,029)	$ 110,904	$ 2,564,074	$ 2,194,979	$ (1,000)	$ 26,544,672

Marc Community Resources, Inc. and Affiliates

Consolidating Schedule of Revenues and Expenses

Year Ended September 30, 2017

	RBHA						Non-RBHA	
	Outpatient				Residential			
	Seriously Mentally Ill Intensive Outpatient Services	Community Living	General Mental Health/ Substance Abuse (Clinic)	Community Service Agency: Employment	Seriously Mentally Ill Intensive Level II Services	Sub-Total RBHA Contract	Business Activities Unrelated to RBHA	Total
Revenue								
RBHA Revenue	$ 3,716,657	$ 3,571,659	$ 1,640,063	$ 4,435,934	$ 1,050,787	$ 14,415,100	$ -	$ 14,415,100
Other Revenue	286,980	569,471	471,032	904,226	91,268	2,322,977	1,599,132	3,922,109
Interest Income	-	-	-	-	-	-	16,386	16,386
Business Activities Unrelated to RBHA	-	-	-	-	-	-	14,374,840	14,374,840
Total Revenue	4,003,637	4,141,130	2,111,095	5,340,160	1,142,055	16,738,077	15,990,358	32,728,435
Expenses								
Clinical Services Expenses:								
Wages:								
BHT	1,257,915	1,941,451	-	-	543,040	3,742,406	-	3,742,406
BH professional	54,080	45,006	462,483	-	15,002	576,571	-	576,571
BH paraprofessional	124,800	15,600	-	-	5,200	145,600	-	145,600
Psychologist, Psychiatrists, NP's	-	-	361,287	-	-	361,287	-	361,287
CSA vocational specialists	-	-	-	2,613,567	-	2,613,567	-	2,613,567
Supervision	324,789	142,833	144,759	370,470	68,196	1,051,047	-	1,051,047
Subtotal labor	1,761,584	2,144,890	968,529	2,984,037	631,438	8,490,478	-	8,490,478
Employee-related	321,091	338,590	220,586	359,337	109,278	1,348,882	-	1,348,882
Operations	318,039	226,289	278,512	262,620	72,404	1,157,864	-	1,157,864
Quality/claims/informatics	378,597	295,669	220,984	123,035	94,292	1,112,577	-	1,112,577
Temp/contract labor	17,927	350,711	8,700	-	102,570	479,908	-	479,908
Professional/outside services	1,922	38,546	933	51,446	10,996	103,843	-	103,843
Travel/transportation	158,014	71,767	9,080	154,941	38,992	432,794	-	432,794
Facility/occupancy	303,487	162,803	74,330	231,484	84,143	856,247	-	856,247
Depreciation	80,609	90,578	35,136	188,882	24,181	419,386	-	419,386
Other clinical services expenses	109,735	107,363	40,974	382,965	39,998	681,035	-	681,035
Subtotal Clinical Services Expenses	3,451,005	3,827,206	1,857,764	4,738,747	1,208,292	15,083,014	-	15,083,014

Marc Community Resources, Inc. and Affiliates

Consolidating Schedule of Revenues and Expenses (continued)

Year Ended September 30, 2017

	RBHA						Non-RBHA	
	Outpatient				Residential			
	Seriously Mentally Ill Intensive Outpatient Services	Community Living	General Mental Health/ Substance Abuse (Clinic)	Community Service Agency: Employment	Seriously Mentally Ill Intensive Level II Services	Sub-Total RBHA Contract	Business Activities Unrelated to RBHA	Total
Business Activities Unrelated to RBHA	-	-	-	-	-	-	12,750,811	12,750,811
Administrative								
Salaries	249,193	257,750	131,398	252,204	71,793	962,338	-	962,338
Employee-related	41,512	42,937	21,889	40,208	11,960	158,506	-	158,506
Professional/outside services	36,589	37,846	19,293	37,302	10,541	141,571	-	141,571
Travel/transportation	10,336	10,691	5,450	16,412	2,978	45,867	-	45,867
Facility/occupancy	20,296	20,993	10,702	16,774	5,847	74,612	-	74,612
Depreciation	22,909	23,695	12,080	23,145	6,600	88,429	-	88,429
Other indirect expenses	103,285	106,832	54,462	112,783	29,757	407,119	-	407,119
Business activities unrelated to RBHA	-	-	-	-	-	-	2,430,279	2,430,279
Subtotal Administrative Expenses	484,120	500,744	255,274	498,828	139,476	1,878,442	2,430,279	4,308,721
Total Expenses	3,935,125	4,327,950	2,113,038	5,237,575	1,347,768	16,961,456	15,181,090	32,142,546
Increase (decrease) in Net Assets	$ 68,512	$ (186,820)	$ (1,943)	$ 102,585	$ (205,713)	$ (223,379)	$ 809,268	$ 585,889
FTE's - Clinical Services (by program)	25.32	81.85	15.65	50.00	24.09	196.91		
FTE's - Clinical Support (by program)	13.42	5.11	7.61	0.00	1.36	27.50		
FTE's - Administrative (by program)	2.03	2.22	0.87	22.51	0.62	28.25		