



Consolidated Financial Statements and Report of  
Independent Certified Public Accountants

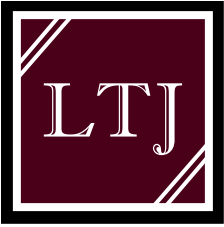
**Mesa Developmental Services and Affiliate**

June 30, 2010



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Logan, Thomas & Johnson, LLC  
Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
Mesa Developmental Services

We have audited the accompanying consolidated statement of financial position of Mesa Developmental Services and Affiliate (the Center) as of June 30, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Center's 2009 financial statements, and in our report dated November 20, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mesa Developmental Services and Affiliate as of June 30, 2010, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Logan, Thomas & Johnson, LLC*

Broomfield, Colorado  
November 19, 2010

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*Consolidated Financial Statements*

Mesa Developmental Services and Affiliate  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
June 30, 2010  
(With summarized financial information for June 30, 2009)

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,414,376	\$ 3,280,825
Accounts receivable		
Fees and grants from governmental agencies, net	2,270,285	1,212,310
Other	98,488	48,777
Contributions receivable	356,989	250,000
Prepaid expenses and other	114,879	95,138
Total current assets	5,255,017	4,887,050
Restricted cash	32,030	25,283
Contributions receivable	119,810	-
Land, building and equipment, net	5,767,766	3,395,977
	\$ 11,174,623	\$ 8,308,310
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,552,951	\$ 1,480,274
Current portion of long-term debt	653,230	66,993
Deferred revenue	10,512	14,773
Total current liabilities	2,216,693	1,562,040
Long-term debt		
Notes payable, net of current portion	1,963,661	793,931
Total liabilities	4,180,354	2,355,971
Commitments and contingencies	-	-
Net assets		
Unrestricted		
Net investment in land, building and equipment	3,150,875	2,535,053
Undesignated	3,319,685	3,108,889
Total unrestricted	6,470,560	5,643,942
Temporarily restricted	523,709	308,397
Total net assets	6,994,269	5,952,339
	\$ 11,174,623	\$ 8,308,310

The accompanying notes are an integral part of this statement.

Mesa Developmental Services and Affiliate  
CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2010

(With summarized financial information for the year ended June 30, 2009)

	Unrestricted	Temporarily restricted	Total	
			2010	2009
Fees and grants from governmental agencies				
Fees for services				
State of Colorado				
State General Fund				
Comprehensive	\$ 258,115	\$ -	\$ 258,115	\$ 40,419
Adult supported living	290,051	-	290,051	312,262
Children and families	550,310	-	550,310	556,954
Medicaid				
Comprehensive	11,052,339	-	11,052,339	9,727,239
Adult supported living	812,797	-	812,797	1,946,198
Children's extensive support	139,031	-	139,031	168,456
Children and families	82,096	-	82,096	104,978
Part C	144,726	-	144,726	188,716
ARRA	107,682	-	107,682	-
Grants and other				
County	381,256	300,419	681,675	750,000
School districts	-	-	-	5,600
Colorado Department of Local Affairs - capital improvement grants	600,000	-	600,000	-
Colorado Department of Transportation	51,989	-	51,989	-
U.S. Department of Housing and Urban Development	35,547	-	35,547	26,961
Vocational Rehabilitation Grant	22,270	-	22,270	30,079
Other	68,665	-	68,665	7,957
Total fees and grants from governmental agencies	14,596,874	300,419	14,897,293	13,865,819
Public support - contributions	12,799	497,252	510,051	199,434
Residential room and board	894,845	-	894,845	759,796
Other revenue	326,798	-	326,798	312,303
Net assets released from restrictions				
Satisfaction of time restrictions	250,000	(250,000)	-	-
Satisfaction of purpose restrictions	332,359	(332,359)	-	-
Total support and revenue	16,413,675	215,312	16,628,987	15,137,352

(Continued)

The accompanying notes are an integral part of this statement.

Mesa Developmental Services and Affiliate  
CONSOLIDATED STATEMENT OF ACTIVITIES (CONTINUED)  
Year ended June 30, 2010  
(With summarized financial information for the year ended June 30, 2009)

	Unrestricted	Temporarily restricted	Total	
			2010	2009
Expenses				
Program services				
Medicaid comprehensive	\$ 10,984,464	\$ -	\$ 10,984,464	\$ 9,451,742
State adult supported living	211,447	-	211,447	235,177
Medicaid adult supported living	930,396	-	930,396	1,619,523
Children's extensive support	117,333	-	117,333	159,661
Early intervention	556,363	-	556,363	490,832
Family support	234,052	-	234,052	210,844
Case management	999,155	-	999,155	1,008,699
Total program services	14,033,210	-	14,033,210	13,176,478
Supporting services				
Management and general	1,553,847	-	1,553,847	1,400,460
Total expenses	15,587,057	-	15,587,057	14,576,938
CHANGE IN NET ASSETS	826,618	215,312	1,041,930	560,414
Net assets, beginning of year	5,643,942	308,397	5,952,339	5,391,925
Net assets, end of year	\$ 6,470,560	\$ 523,709	\$ 6,994,269	\$ 5,952,339

The accompanying notes are an integral part of this statement.

Mesa Developmental Services and Affiliate  
CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2010

(With summarized financial information for the year ended June 30, 2009)

	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 1,041,930	\$ 560,414
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	317,171	255,900
(Gain) loss on disposition of land, building and equipment	5,146	(2,010)
Contributions restricted for purchasing buildings and equipment	(29,770)	-
Change in assets and liabilities		
(Increase) decrease in accounts receivable	(1,107,686)	165,155
Increase in contribution receivable	(50,419)	(25,000)
Increase in pledges receivable	(176,380)	-
Increase in prepaid expenses	(19,741)	(25,441)
Increase in accounts payable and accrued expenses	72,677	771
Decrease in deferred revenue	(4,261)	(2,289)
Net cash provided by operating activities	48,667	927,500
Cash flows from investing activities		
Purchase of land, building and equipment	(2,664,336)	(172,751)
Purchase of assets restricted to investment in buildings and equipment	(29,770)	-
Proceeds from sale of assets	-	2,010
Increase in restricted cash	(6,747)	(2,892)
Net cash used in investing activities	(2,700,853)	(173,633)
Cash flows from financing activities		
Contributions restricted for purchasing buildings and equipment	29,770	-
Payments on notes payable	(864,974)	(62,877)
Proceeds from notes payable	2,000,000	-
Payments on lines of credit	(824,596)	-
Borrowings on lines of credit	1,445,537	-
Net cash provided by (used in) financing activities	1,785,737	(62,877)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(866,449)	690,990
Cash and cash equivalents, beginning of year	3,280,825	2,589,835
Cash and cash equivalents, end of year	\$ 2,414,376	\$ 3,280,825
Supplemental data		
Cash paid for interest	\$ 56,636	\$ 59,668

The accompanying notes are an integral part of this statement.

Mesa Developmental Services and Affiliate  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Mesa Developmental Services and Affiliate (the Center) is presented to assist in understanding the Center's financial statements.

1. *Principles of Consolidation*

The consolidated financial statements of Mesa Developmental Services (Mesa) include its affiliate, DD Housing, Incorporated. DD Housing, Incorporated is an affiliate of Mesa due to the fact that Mesa exercises control over the Board of Directors of DD Housing, Incorporated. Significant intercompany accounts and transactions have been eliminated.

2. *Summary of Business Activities*

Mesa was incorporated under the laws of the State of Colorado in 1966 for the purpose of providing a community center board to coordinate programs through interagency cooperation and local agencies to provide services to persons with developmental disabilities in Mesa County.

DD Housing, Incorporated was incorporated in 2000 for the purpose of holding assets purchased and constructed pursuant to grants received from the U.S. Department of Housing and Urban Development (HUD). Under HUD regulations, these assets are required to be held in a separate corporation for a period of not less than forty years. DD Housing, Incorporated is being operated as a non-profit corporation exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code.

The Center's revenue comes primarily from the State of Colorado for services provided.

3. *Description of Services Provided*

The major program services or supports and functional activities directly provided or purchased by the Center are:

**Program Services or Supports**

Comprehensive (Medicaid) refers to residential services, adult day services or supports and transportation activities as specified in the Individualized Plan. Included are number of different types of residential settings, which provide an array of training, learning, experiential and support activities provided in residential living alternatives designed to meet individual needs. Additionally, adult day services provide

Mesa Developmental Services and Affiliate  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. *Description of Services Provided (Continued)*

**Program Services or Supports (Continued)**

Comprehensive (Medicaid) (Continued)

opportunities for individuals to experience and actively participate in valued roles in the community. These services and supports enable individuals to access and participate in typical community activities such as work, recreation, and senior citizen activities. Finally, transportation activities refer to “Home to Day Program transportation” services relevant to an individual’s work schedule as specified in the Individualized Plan. For these purposes, “work schedule” is defined broadly to include adult and retirement activities such as education, training, community integration and employment.

Adult Supported Living (State and Medicaid) provides individualized living services for persons who are responsible for their own living arrangements in the community.

Children’s Extensive Support is a deeming waiver (only the child’s income is considered in determining eligibility) intended to provide needed services and supports to eligible children under the age of eighteen years in order for the children to remain in or return to the family home. Waiver services are targeted to children having extensive support needs which require constant line-of-sight supervision due to significantly challenging behaviors and/or coexisting medical conditions. Available services include personal assistance, household modification, specialized medical equipment and supplies, professional services, and community connection services.

Early Intervention is support for children from birth through age two which offer infants and toddlers and their families services and supports to enhance child development in the areas of cognition, speech, communication, physical, motor, vision, hearing, social-emotional development, and self help skills; parent-child or family interaction; and early identification, screening and assessment services.

Family Support provides an array of supportive services to the person with a developmental disability and his/her family when the person remains within the family home, thereby preventing or delaying the need for out-of-home placement, which is unwanted by the person or the family.

Case Management is the determination of eligibility for services and supports, service and support coordination, and the monitoring of all services and supports delivered pursuant to the Individualized Plan and the evaluation of results identified in the Individualized Plan.

Mesa Developmental Services and Affiliate  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. *Description of Services Provided (Continued)*

**Supporting Services**

Management and General includes those activities necessary for planning, coordination and overall direction of the Center, financial administration, general board activities and other related activities indispensable to the organization's corporate existence.

4. *Basis of Accounting*

Financial statements of the Center have been prepared on the accrual basis, whereby support and revenue are recorded when services are performed and expenses are recognized when incurred.

5. *Use of Estimates*

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

6. *Subsequent Events*

The Center has evaluated events and transactions occurring subsequent to the end of the fiscal year for potential recognition or disclosure through November 19, 2010, the date on which the financial statements were issued, and did not identify any events or transactions that would have a material impact on the financial statements.

7. *Cash and Cash Equivalents*

For purposes of the statement of cash flows, the Center considers all cash on hand and unrestricted cash on deposit, subject to immediate withdrawal, to be cash equivalents.

The Center maintains its cash balances in financial institutions, which at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Mesa Developmental Services and Affiliate  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. *Accounts Receivable*

The majority of the Center's accounts receivable are due from the State of Colorado. Accounts receivable are due according to contractual terms and are stated at the amounts management expects to collect from outstanding balances. The Center determines its allowance by considering a number of factors, including the length of time accounts receivable are past due and the Center's previous collection history. The Center writes off accounts receivable to bad debt expense after reasonable collection efforts have been made and payments subsequently received on such receivables are recorded as revenue.

9. *Contributions Receivable*

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received and are recorded at their estimated fair value. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectibility of the contributions. The Center writes off contributions receivable to bad debt expense after it is determined they will not receive the contributions and payments subsequently received on contributions receivable are recorded as revenue.

10. *Land, Building and Equipment*

Land, building and equipment are reported at cost for purchased assets and at estimated value, at the date of receipt, for donated property. Any asset purchased for more than \$5,000 that has a life expectancy of more than one year is capitalized. Depreciation is provided on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	5–30
Administrative and other equipment	3–10
Program equipment	3–5
Vehicles	3–7

11. *Revenue Recognition*

Revenues are recognized when services are performed. The Center receives certain revenue for which if it does not spend all the revenue in the current year and the Center met certain control points, it is allowed to recognize five percent of the total original revenue and the remaining excess revenue is deferred to the next year. Support from counties is considered a donation and recorded as a non-exchange transaction.

Mesa Developmental Services and Affiliate  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

12. *Temporarily Restricted Revenue*

Donor restricted revenues, whose restrictions are currently satisfied in the same fiscal year, are reported as unrestricted revenue, rather than temporarily restricted. Donor restricted contributions, whose restrictions are not currently met, are reflected as an increase to temporarily restricted net assets.

13. *Income Taxes*

The Center is operated as a nonprofit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Center recognizes tax liabilities when, despite the Center's belief that its tax return positions are supportable, the Center believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The Center has concluded there is no tax liability or benefit required to be recorded as of June 30, 2010.

14. *Prior Year Summarized Information*

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

NOTE B – FEES AND GRANTS FROM GOVERNMENTAL AGENCIES

Amounts receivable from governmental agencies at June 30, 2010, are as follows:

State of Colorado	
General Fund	\$ 71,926
Medicaid, net of allowance of \$12,000	1,497,452
Part C	12,061
ARRA	15,035
Department of Local Affairs	600,000
Department of Transportation	51,989
Other	<u>21,822</u>
	\$ <u>2,270,285</u>

Mesa Developmental Services and Affiliate  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010

NOTE C – RESTRICTED CASH

Restricted cash consists of cash restricted for HUD operations of \$32,030 as of June 30, 2010.

NOTE D – CONTRIBUTIONS RECEIVABLE

At June 30, 2010, the Center had a \$300,419 contribution receivable from one donor which will be received within one year. Additionally, the Center had received unconditional promises to give which are temporarily restricted for the purpose of constructing three group homes, which were completed at June 30, 2010. Amounts due more than one year later are recorded at the present value of the estimated future cash flows, discounted at risk-free rates applicable to the years in which the promises were received, which is 3.91%. Amortization of the discount is credited to contribution income. Total amounts expected to be received are \$191,256, which have been discounted by \$4,876.

The unconditional promises to give are due as follows:

Gross amounts due in:

One year	\$ 56,570
Two to five years	<u>129,810</u>
	186,380
Less allowance	<u>10,000</u>
Total	\$ <u>176,380</u>

NOTE E – LAND, BUILDING AND EQUIPMENT

Land, building and equipment consists of the following at June 30, 2010:

Buildings and improvements	\$ 6,615,860
Administrative and other equipment	592,366
Program equipment	269,490
Vehicles	<u>1,185,009</u>
	8,662,725
Less accumulated depreciation and amortization	<u>3,718,884</u>
	4,943,841
Construction in progress	9,944
Land	<u>813,981</u>
	\$ <u>5,767,766</u>

Mesa Developmental Services and Affiliate  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2010

NOTE F – DEFERRED REVENUE

Deferred revenue of \$10,512 at June 30, 2010 consists of unspent State adult supported living services funds.

NOTE G – NOTES PAYABLE

In June 2010, the Center entered into a financing agreement with Colorado Housing and Finance Authority (CHFA) and a bank. Simultaneously on June 10, 2010, CHFA made a \$2,000,000 loan with Mesa and assigned the loan to the bank and at this time the bank became the lender of the loan for as long as it is the holder of the loan. This loan was used to help pay for the construction of three group homes and pay off the existing debt of the Center. CHFA issued bonds that are tax exempt to obtain the funding for this loan.

This loan has an interest rate of 4.98% until June 10, 2020. On June 10, 2020, CHFA (at the direction of the bank) may either receive the entire outstanding principal plus accrued interest or CHFA (at the direction of the bank) and the Center may elect to reset the interest rate to a rate negotiated by the bank and the Center. At that time, the loan will bear interest at such reset rate from June 11, 2020 to the maturity date of June 1, 2030. If the bank does not direct CHFA to receive the entire outstanding principal plus accrued interest and the bank and the Center have not agreed to a reset rate, the loan shall continue to bear interest at the alternative rate from June 11, 2020 to June 1, 2030 which will be the published one-year LIBOR rate at June 10, 2020 plus six percent.

The loan contains various debt covenants which the Center met.

The interest expense for the year ended June 30, 2010 was \$56,636. At June 30, 2010, future principal maturities of the notes payable are as follows:

Year ending June 30,	
2011	\$ 32,289
2012	31,604
2013	32,704
2014	33,678
2015	34,681
Thereafter	<u>1,830,994</u>
	1,995,950
Less current portion	<u>32,289</u>
	\$ <u>1,963,661</u>

Mesa Developmental Services and Affiliate  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010

NOTE H – LINE OF CREDIT

The Center maintains a secured, revolving line of credit with a bank, which allows for advances up to \$500,000 bearing interest at the prime rate, but the interest rate cannot adjust below 5%. At June 30, 2010, the prime rate is 3.25%, therefore the line of credit interest rate is 5%. This line matures on June 3, 2011. There were no amounts outstanding on the line of credit as of June 30, 2010.

The Center maintains a secured, straight line of credit with a bank, which allows for advances up to \$1,200,000 bearing interest at 5%. The maturity date of this line was April 30, 2010 and was extended to July 29, 2010 and was not renewed. The amount outstanding on this line of credit as of June 30, 2010 was \$620,941 and was paid off after June 30, 2010.

The Center maintains a secured, straight line of credit with a bank, which allows for advances up to \$900,000 bearing interest at 5%. The maturity date of this line was April 30, 2010 and was extended to July 29, 2010 and was not renewed. There were no amounts outstanding on the line of credit as of June 30, 2010.

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2010:

Purpose restricted	
Residential programs	\$ 216,040
Day program	4,193
Family services	1,383
Administration/other	1,170
Part C	504
Time restricted	<u>300,419</u>
	\$ <u>523,709</u>

NOTE J – LEASE COMMITMENTS

The Center leases building space and residential facilities on a month-to-month basis. Rental expense for property under operating leases was \$96,802 for the year ended June 30, 2010, which also includes month-to-month operating leases for apartments in which residential clients reside.

Mesa Developmental Services and Affiliate  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010

NOTE J – LEASE COMMITMENTS (CONTINUED)

Future maturities rental payments for non-cancelable operating leases at June 30, 2010 are:

Year ending June 30,	
2011	\$ 53,156
2012	28,518
2013	29,376
2014	<u>4,920</u>
	\$ <u>115,970</u>

NOTE K – RETIREMENT PLAN

The Center has adopted a tax deferred annuity plan in which all employees are eligible to participate. The Center will match employees' contributions up to 3% of the employee's gross salary after two years of employment. The retirement plan expense totaled \$86,995 for the year ended June 30, 2010.

NOTE L – DEFERRED COMPENSATION

In August 2007, the Center entered into a deferred compensation agreement with a key executive. The agreement provides for certain postretirement benefits, contingent on certain conditions, beginning in August 2008 and payable for one year. The Center had a liability as of June 30, 2010 of \$28,343 related to this agreement.

NOTE M – RELATED PARTY TRANSACTIONS

The Center receives a substantial amount of revenue from the State of Colorado. The amount of receivables the Center has from the State of Colorado is disclosed in Note B and the Center has a payable to the State of Colorado in the amount of \$24,702 which is recorded in accounts payable and accrued liabilities. These transactions are considered to be transactions with a related party by virtue of the significant management influence exercised by the State of Colorado through contract provisions.

The Center purchases services from a provider agency, which is economically dependent on the Center for revenue and over which the Center exercises significant management influence through contract provisions. Total expenses incurred by the Center to this organization for the year ended June 30, 2010, were approximately \$1,788,000 of which approximately \$150,000 is due to this organization at June 30, 2010, and is included in accounts payable and accrued liabilities.

Mesa Developmental Services and Affiliate  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010

NOTE N – COMMITMENTS AND CONTINGENCIES

U.S. Department of Housing and Urban Development Capital Advance

On May 1, 2001, the Center received approval for a capital advance from the U.S. Department of Housing and Urban Development (HUD) in the amount of \$694,238. This capital advance was awarded for the purpose of acquiring and constructing specific residential facilities. Provided that these facilities remain available for occupancy by very low income people with disabilities through February 1, 2042, the capital advance will not become payable, and will be discharged on that date. If any default occurs, the capital advance bears interest at 6.0%, accruing from February 1, 2002, and becomes immediately payable. As of June 30, 2010, no default has occurred.

Colorado Division of Housing Grant

On May 1, 2001, the Center received a grant from the Colorado Division of Housing (CDH) in the amount of \$150,000. This grant was awarded for the purpose of acquiring and constructing specific residential facilities. Provided that these facilities remain available for occupancy by low and moderate income persons at affordable rents through February 1, 2042, the grant will not become payable, and the associated contingent liability will be discharged on that date. If any default occurs, the grant becomes immediately payable in full, but bears no interest. As of June 30, 2010, no default has occurred.

Colorado Department of Local Affairs Grant

The Center is contingently liable to the Colorado Department of Local Affairs for funding of an addition to one of the Center's group homes in the amount of \$39,000 in HOME grant funds. The grant agreement provides that, as long as the facility is used to provide housing for people with very low and low incomes for 20 years from the date of contract execution, the Center will not be required to repay any portion of the grant. The usage restriction will end in 2026. If there is a change in use, the Center, its successors and assignees, grantees or lessees shall be required to repay the State the grant funds attributed to this property, unless the State authorizes the transfer of repaid funds to one or more public housing entities or private nonprofit corporations.

The Center is contingently liable to the Colorado Department of Local Affairs for funding of the construction of three group homes of the Center in the amount of \$307,171 in Home Investment Partnerships Program (HOME) grant funds. The grant agreement provides that, as long as the facility is used to provide housing for people with very low and low incomes for 30 years from the date of contract execution, the Center will not be required to repay any portion of the grant. The usage restriction will end in 2040. If there is a change in use, the Center, its successors and assignees, grantees or lessees shall be required to repay the State the grant funds attributed to this property, unless the State authorizes the transfer of repaid funds to one or more public housing entities or private nonprofit corporations.

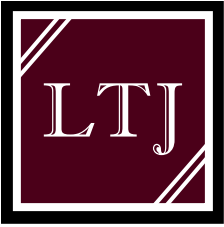
Mesa Developmental Services and Affiliate  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010

NOTE N – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Colorado Department of Local Affairs Grant (continued)

The Center is contingently liable to the Colorado Department of Local Affairs for funding of the construction of three group homes of the Center in the amount of \$292,829 in Housing Development Grant (HDG) funds. The grant agreement provides that, as long as the facility is used to provide housing for people with very low, low and moderate income persons for 30 years from the date of project closeout which was April, 2010, the Center will not be required to repay any portion of the grant. The usage restriction will end in 2026. If there is a change in use, the Center, its successors and assignees, heirs, grantees or lessees shall be required to repay the State the grant funds attributed to this property. In lieu of repayment, the State may authorize the Center, its successors and assignees, heirs, grantees or lessees to retain such funds for other projects or repay the funds to one or more public housing entities or private non-profit corporations.

*Supplementary Information*



Logan, Thomas & Johnson, LLC  
Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON SUPPLEMENTARY INFORMATION

Board of Directors  
Mesa Developmental Services

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole of Mesa Developmental Services and Affiliate (the Center) as of and for the year ended June 30, 2010, which are presented in the preceding section of this report. The consolidated summary of revenue and expenses by program, consolidated schedule of case management services, consolidated schedule of room and board and other unallowable expenses, consolidated schedule of accounts receivable—fees and grants from governmental agencies, and consolidating schedules are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows for individual companies and are not a required part of the consolidated financial statements. The statistical data shown on pages 26 through 29 and the consolidated schedule of room and board and other unallowable expenses on pages 30 and 31 have been summarized from the Center's records and were not subjected to the audit procedures applied in the audit of the basic financial statements. Accordingly, we do not express an opinion on such information. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Logan, Thomas & Johnson, LLC*

Broomfield, Colorado  
November 19, 2010

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Mesa Developmental Services and Affiliate  
CONSOLIDATED SUMMARY OF REVENUE AND EXPENSES BY PROGRAM  
Year ended June 30, 2010  
(With summarized financial information for the year ended June 30, 2009)

	<b>Program Services</b>			
	Non specified	Medicaid comprehen- sive	State adult supported living	Medicaid adult supported living
Fees and grants from governmental agencies				
Fees for services				
State of Colorado				
State General Fund				
Comprehensive	\$ -	\$ 228,612	\$ -	\$ -
Adult supported living	-	-	222,352	-
Children and families	-	-	-	-
Medicaid				
Comprehensive	-	10,276,925	-	-
Adult supported living	-	-	-	626,920
Children's extensive support	-	-	-	-
Children and families	-	-	-	-
Part C	-	-	-	-
ARRA	-	-	-	-
Grants and other				
County	-	558,975	10,225	20,450
School districts	-	-	-	-
Colorado Department of Local Affairs - capital improvement grants	-	600,000	-	-
Colorado Department of Transportation	-	51,989	-	-
U.S. Department of Housing and Urban Development	-	35,547	-	-
Vocational Rehabilitation Grant	-	22,270	-	-
Other	-	-	-	-
Total fees and grants from governmental agencies	-	11,774,318	232,577	647,370
Public support - contributions	-	397,633	-	-
Residential room and board	-	894,845	-	-
Other revenue	-	241,350	-	352
Total support and revenue	\$ -	\$ 13,308,146	\$ 232,577	\$ 647,722
Expenses				
Salaries				
Direct care	\$ -	\$ 4,919,503	\$ 103,538	\$ 552,518
Other	-	-	-	-
Payroll taxes	-	520,728	11,065	60,777
Employee benefits	-	523,009	13,941	73,853
Total personal services	-	5,963,240	128,544	687,148
Medical professional services				
Physicians	-	-	-	-
Other	-	78,783	2,944	9,684
Other professional services	-	1,292,878	5,160	62,610
Staff development	-	4,548	348	1,893
Staff travel	-	52,994	2,829	15,101

**Program Services**

Children's extensive support	Early intervention	Family support	Case management	Management and general	Total	
					2010	2009
\$ -	\$ -	\$ -	\$ 10,312	\$ 19,191	\$ 258,115	\$ 40,419
-	-	-	29,212	38,487	290,051	312,262
-	231,272	171,068	77,035	70,935	550,310	556,954
-	-	-	668,188	107,226	11,052,339	9,727,239
-	-	-	185,877	-	812,797	1,946,198
122,767	-	-	16,264	-	139,031	168,456
-	-	-	82,096	-	82,096	104,978
-	102,840	-	23,738	18,148	144,726	188,716
-	83,983	-	11,600	12,099	107,682	-
5,453	26,585	11,588	48,399	-	681,675	750,000
-	-	-	-	-	-	5,600
-	-	-	-	-	600,000	-
-	-	-	-	-	51,989	-
-	-	-	-	-	35,547	26,961
-	-	-	-	-	22,270	30,079
-	68,665	-	-	-	68,665	7,957
128,220	513,345	182,656	1,152,721	266,086	14,897,293	13,865,819
-	35,538	62,581	-	14,299	510,051	199,434
-	-	-	-	-	894,845	759,796
-	67,963	-	-	17,133	326,798	312,303
<u>\$ 128,220</u>	<u>\$ 616,846</u>	<u>\$ 245,237</u>	<u>\$ 1,152,721</u>	<u>\$ 297,518</u>	<u>\$ 16,628,987</u>	<u>\$ 15,137,352</u>
\$ 18,989	\$ 363,819	\$ 49,016	\$ 719,183	\$ -	\$ 6,726,566	\$ 6,042,154
-	-	-	-	971,706	971,706	867,003
1,907	44,089	5,073	73,818	135,733	853,190	701,906
881	22,863	7,193	87,472	114,667	843,879	902,532
21,777	430,771	61,282	880,473	1,222,106	9,395,341	8,513,595
-	-	-	-	-	-	-
5,435	46,931	13,110	-	-	156,887	138,820
75,841	3,482	120,150	11,619	125,609	1,697,349	1,333,203
-	1,776	429	6,187	34,103	49,284	51,651
472	21,237	1,665	11,278	9,196	114,772	121,879

(Continued)

Mesa Developmental Services and Affiliate  
CONSOLIDATED SUMMARY OF REVENUE AND EXPENSES BY PROGRAM (CONTINUED)  
Year ended June 30, 2010  
(With summarized financial information for the year ended June 30, 2009)

	<b>Program Services</b>			
	Non specified	Medicaid comprehen- sive	State adult supported living	Medicaid adult supported living
Vehicles				
Fuel and oil	\$ -	\$ 61,270	\$ 1,470	\$ 6,135
Maintenance	-	41,103	1,073	4,477
Leases	-	-	-	-
Occupancy				
Rent	-	64,426	1,237	6,419
Maintenance	-	280,618	4,544	18,894
Utilities	-	149,760	2,896	12,245
Equipment				
Leases	-	-	-	-
Maintenance	-	-	-	-
Supplies				
Medical and client care supplies	-	32,040	-	2,602
Pharmacy	-	41,512	38	211
Production materials	-	-	-	-
Other	-	272,705	7,729	34,409
Telephone	-	61,959	1,374	6,000
Dues and subscriptions	-	36,272	909	3,007
Food	-	287,908	2	10
Insurance	-	65,946	1,796	6,488
Interest	-	30,898	1,184	3,389
Other	-	96,159	6,663	23,960
In-kind donations	-	-	-	-
Total direct program expenses	-	8,915,019	170,740	904,682
Purchased services	-	1,814,870	35,031	3,229
Expenses before depreciation and amortization	-	10,729,889	205,771	907,911
Depreciation and amortization	-	254,575	5,676	22,485
Total expenses	\$ -	\$ 10,984,464	\$ 211,447	\$ 930,396

**Program Services**

Children's extensive support	Early intervention	Family support	Case management	Management and general	Total	
					2010	2009
\$ -	\$ 26	\$ -	\$ -	\$ 54	\$ 68,955	\$ 54,872
-	-	-	-	21	46,674	37,860
-	-	-	-	-	-	-
-	24,720	-	-	-	96,802	97,886
1,082	4,544	1,287	15,438	14,455	340,862	254,379
643	135	689	9,184	8,056	183,608	172,892
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	47	6,846	-	-	41,535	42,784
-	-	1,334	-	-	43,095	26,398
-	-	-	-	-	-	-
1,559	8,818	3,837	23,674	21,546	374,277	321,077
383	4,474	809	5,378	3,883	84,260	61,281
363	337	593	5,491	13,908	60,880	48,950
-	-	-	-	-	287,920	235,460
438	137	469	6,253	5,249	86,776	79,688
636	133	682	9,087	10,627	56,636	59,985
7,461	3,467	19,792	730	72,373	230,605	247,845
-	-	-	-	-	-	-
116,090	551,035	232,974	984,792	1,541,186	13,416,518	11,900,505
238	-	-	-	-	1,853,368	2,420,533
116,328	551,035	232,974	984,792	1,541,186	15,269,886	14,321,038
1,005	5,328	1,078	14,363	12,661	317,171	255,900
<u>\$ 117,333</u>	<u>\$ 556,363</u>	<u>\$ 234,052</u>	<u>\$ 999,155</u>	<u>\$ 1,553,847</u>	<u>\$ 15,587,057</u>	<u>\$ 14,576,938</u>

(Continued)

Mesa Developmental Services and Affiliate  
CONSOLIDATED SUMMARY OF REVENUE AND EXPENSES BY PROGRAM (CONTINUED)  
Year ended June 30, 2010  
(With summarized financial information for the year ended June 30, 2009)

	<b>Program Services</b>			
	Non specified	Medicaid comprehen- sive	State adult supported living	Medicaid adult supported living
Total expenses	\$ -	\$ 10,984,464	\$ 211,447	\$ 930,396
Less funded by private pay	-	-	-	-
Less funded by other sources	-	22,270	-	-
Less unallowable expenses	-	1,039,658	-	-
Total allowable expenses	-	9,922,536	211,447	930,396
Net allocated management and general (note A)	-	983,388	18,930	83,294
Adjusted total expenses	<u>\$ -</u>	<u>\$ 10,905,924</u>	<u>\$ 230,377</u>	<u>\$ 1,013,690</u>

Statistical Data (Unaudited)

1. Total days in residential used - State, Medicaid, private pay, etc.	49,143		
2. Total days in residential used - State and Medicaid only	49,143		
3. Unduplicated number of individuals	166	34	96

Cost per unit of service

Adjusted total expense/item 2	\$ 222		
Adjusted total expense/item 3		\$ 6,776	\$ 10,559

Note A:

Net management and general costs are allocated to program services based on the individual program's expenses as a percentage to total program expenses.

**Program Services**

Children's extensive support	Early intervention	Family support	Case management	Management and general	Total	
					2010	2009
\$ 117,333	\$ 556,363	\$ 234,052	\$ 999,155	\$ 1,553,847	\$ 15,587,057	\$ 14,576,938
-	-	-	-	-	-	70
-	-	-	-	-	22,270	92,298
-	-	-	-	-	1,039,658	843,178
117,333	556,363	234,052	999,155	1,553,847	14,525,129	13,641,392
10,504	49,809	20,954	89,450	(1,256,329)	-	-
<u>\$ 127,837</u>	<u>\$ 606,172</u>	<u>\$ 255,006</u>	<u>\$ 1,088,605</u>	<u>\$ 297,518</u>	<u>\$ 14,525,129</u>	<u>\$ 13,641,392</u>

12                      198                      88                      759

\$ 10,653    \$ 3,061    \$ 2,898    \$ 1,434

Mesa Developmental Services and Affiliate  
CONSOLIDATED SCHEDULE OF CASE MANAGEMENT SERVICES  
Year ended June 30, 2010

	Targeted case manage- ment	Other case manage- ment	Total
	<u>          </u>	<u>          </u>	<u>          </u>
Fees and grants from governmental agencies			
Fees for services			
State of Colorado			
State General Fund			
Comprehensive	\$ -	\$ 10,312	\$ 10,312
Adult supported living	-	29,212	29,212
Children and families	-	77,035	77,035
Medicaid			
Comprehensive	668,188	-	668,188
Adult supported living	185,877	-	185,877
Children's extensive support	16,264	-	16,264
Children and families	82,096	-	82,096
Part C	-	23,738	23,738
ARRA	-	11,600	11,600
County	-	48,399	48,399
Total fees and grants from governmental agencies	<u>952,425</u>	<u>200,296</u>	<u>1,152,721</u>
Total support and revenue	<u>\$ 952,425</u>	<u>\$ 200,296</u>	<u>\$ 1,152,721</u>
Expenses			
Salaries			
Direct care	\$ 537,949	\$ 181,234	\$ 719,183
Other	-	-	-
Payroll taxes	55,216	18,602	73,818
Employee benefits	65,429	22,043	87,472
Total personal services	<u>658,594</u>	<u>221,879</u>	<u>880,473</u>
Medical professional services			
Physicians	-	-	-
Other	-	-	-
Other professional services	8,691	2,928	11,619
Staff development	4,628	1,559	6,187
Staff travel	8,436	2,842	11,278
Vehicles			
Fuel and oil	-	-	-
Maintenance	-	-	-
Leases	-	-	-

(Continued)

Mesa Developmental Services and Affiliate  
CONSOLIDATED SCHEDULE OF CASE MANAGEMENT SERVICES (CONTINUED)  
Year ended June 30, 2010

	Targeted case manage- ment	Other case manage- ment	Total
	<u>          </u>	<u>          </u>	<u>          </u>
Occupancy			
Rent	\$ -	\$ -	\$ -
Maintenance	11,548	3,890	15,438
Utilities	6,870	2,314	9,184
Equipment			
Leases	-	-	-
Maintenance	-	-	-
Supplies			
Medical and client care supplies	-	-	-
Pharmacy	-	-	-
Production materials	-	-	-
Other	17,708	5,966	23,674
Telephone	4,023	1,355	5,378
Dues and subscriptions	4,107	1,384	5,491
Food	-	-	-
Insurance	4,677	1,576	6,253
Interest	6,797	2,290	9,087
Other	546	184	730
In-kind donations	-	-	-
Total direct program expenses	<u>736,625</u>	<u>248,167</u>	<u>984,792</u>
Depreciation and amortization	<u>10,744</u>	<u>3,619</u>	<u>14,363</u>
Total expenses	<u>\$ 747,369</u>	<u>\$ 251,786</u>	<u>\$ 999,155</u>
Statistical Data (Unaudited)			
Unduplicated number of individuals	527	232	
Full-time equivalents	14.56	4.91	

Mesa Developmental Services and Affiliate  
CONSOLIDATED SCHEDULE OF ROOM AND BOARD AND OTHER UNALLOWABLE EXPENSES  
Year ended June 30, 2010  
(Unaudited)

	<b>Program Services</b>			
	Non specified	Medicaid comprehen- sive	State adult supported living	Medicaid adult supported living
Salaries				
Direct care	\$ -	\$ 94,300	\$ -	\$ -
Other	-	-	-	-
Payroll taxes	-	5,664	-	-
Employee benefits	-	6,231	-	-
Total personal services	-	106,195	-	-
Medical professional services				
Physicians	-	-	-	-
Other	-	7,174	-	-
Other professional services	-	218,631	-	-
Staff development	-	-	-	-
Staff travel	-	-	-	-
Vehicles				
Fuel and oil	-	-	-	-
Maintenance	-	-	-	-
Leases	-	-	-	-
Occupancy				
Rent	-	45,100	-	-
Maintenance	-	187,046	-	-
Utilities	-	92,112	-	-
Equipment				
Leases	-	-	-	-
Maintenance	-	-	-	-
Supplies				
Medical and client care supplies	-	-	-	-
Pharmacy	-	-	-	-
Production materials	-	-	-	-
Other	-	-	-	-
Telephone	-	-	-	-
Dues and subscriptions	-	-	-	-
Food	-	287,878	-	-
Insurance	-	9,243	-	-
Interest	-	-	-	-
Other	-	558	-	-
In-kind donations	-	-	-	-
Total direct program expenses	-	953,937	-	-
Purchased services	-	-	-	-
Expenses before depreciation and amortization	-	953,937	-	-
Depreciation and amortization	-	85,721	-	-
Total expenses	\$ -	\$ 1,039,658	\$ -	\$ -

**Program Services**

Children's extensive support	Early intervention	Family support	Case management	Management and general	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 94,300
-	-	-	-	-	-
-	-	-	-	-	5,664
-	-	-	-	-	6,231
-	-	-	-	-	106,195
-	-	-	-	-	-
-	-	-	-	-	7,174
-	-	-	-	-	218,631
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	45,100
-	-	-	-	-	187,046
-	-	-	-	-	92,112
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	287,878
-	-	-	-	-	9,243
-	-	-	-	-	-
-	-	-	-	-	558
-	-	-	-	-	-
-	-	-	-	-	953,937
-	-	-	-	-	-
-	-	-	-	-	953,937
-	-	-	-	-	85,721
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,039,658

Mesa Developmental Services and Affiliate  
CONSOLIDATED SCHEDULE OF ACCOUNTS RECEIVABLE -  
FEES AND GRANTS FROM GOVERNMENTAL AGENCIES  
June 30, 2010

State of Colorado	
General Fund	
Comprehensive	\$ 430
Adult supported living	19,721
Children and families	33,538
Case management	8,846
Management fee	9,391
Medicaid	
Comprehensive, net of allowance of \$12,000	1,270,708
Adult supported living	99,521
Children's extensive support	10,654
Targeted case management	92,709
Children's Habilitation Residential Program	1,042
Quality assurance	19,518
Utilization review	3,300
Part C	12,061
ARRA	15,035
Department of Local Affairs	600,000
Department of Transportaion	51,989
Other	21,822
	<u>\$ 2,270,285</u>

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Mesa Developmental Services and Affiliate  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
June 30, 2010

	Mesa Developmental Services	DD Housing, Inc.
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,401,478	\$ 12,898
Accounts receivable		
Fees and grants from governmental agencies, net	2,270,285	-
Other	320,275	-
Contributions receivable	356,989	-
Prepaid expenses and other	114,879	-
	5,463,906	12,898
Restricted cash	-	32,030
Contributions receivable	119,810	-
Land, building and equipment, net	4,994,363	773,403
	\$ 10,578,079	\$ 818,331
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,552,951	\$ 221,787
Current portion of long-term debt	653,230	-
Deferred revenue	10,512	-
	2,216,693	221,787
Long-term debt		
Notes payable, net of current portion	1,963,661	-
	4,180,354	221,787
Net assets		
Unrestricted		
Net investment in land, building and equipment	2,377,472	773,403
Undesignated	3,496,544	(176,859)
	5,874,016	596,544
Temporarily restricted	523,709	-
	6,397,725	596,544
	\$ 10,578,079	\$ 818,331

<u>Eliminations</u>	<u>Consolidated</u>
\$ -	\$ 2,414,376
-	2,270,285
(221,787)	98,488
-	356,989
-	114,879
(221,787)	5,255,017
-	32,030
-	119,810
-	5,767,766
\$ (221,787)	\$ 11,174,623
\$ (221,787)	\$ 11,174,623
\$ (221,787)	\$ 1,552,951
-	653,230
-	10,512
(221,787)	2,216,693
-	1,963,661
(221,787)	4,180,354
-	3,150,875
-	3,319,685
-	6,470,560
-	523,709
-	6,994,269
\$ (221,787)	\$ 11,174,623
\$ (221,787)	\$ 11,174,623

Mesa Developmental Services and Affiliate  
CONSOLIDATING STATEMENT OF ACTIVITIES  
Year ended June 30, 2010

	Mesa Developmental Services	DD Housing, Inc.
Fees and grants from governmental agencies		
Fees for services		
State of Colorado		
State General Fund		
Comprehensive	\$ 258,115	\$ -
Adult supported living	290,051	-
Children and families	550,310	-
Medicaid		
Comprehensive	11,052,339	-
Adult supported living	812,797	-
Children's extensive support	139,031	-
Children and families	82,096	-
Part C	144,726	-
ARRA	107,682	-
Grants and other		
County	681,675	-
Colorado Department of Local Affairs - capital improvement grants	600,000	-
Colorado Department of Transportation	51,989	-
U.S. Department of Housing and Urban Development	1,782	33,765
Vocational Rehabilitation Grant	22,270	-
Other	68,665	-
Total fees and grants from governmental agencies	14,863,528	33,765
Public support - contributions	510,051	-
Residential room and board	861,415	33,430
Other revenue	326,767	31
Total support and revenue	16,561,761	67,226
Expenses		
Program services		
Medicaid comprehensive	10,890,829	93,635
State adult supported living	211,447	-
Medicaid adult supported living	930,396	-
Children's extensive support	117,333	-
Early intervention	556,363	-
Family support	234,052	-
Case management	999,155	-
Total program services	13,939,575	93,635
Supporting services		
Management and general	1,553,847	-
Total expenses	15,493,422	93,635
CHANGE IN NET ASSETS	1,068,339	(26,409)
Net assets, beginning of year	5,329,386	622,953
Net assets, end of year	\$ 6,397,725	\$ 596,544

<u>Eliminations</u>	<u>Consolidated</u>
---------------------	---------------------

\$ -	\$ 258,115
-	290,051
-	550,310
-	11,052,339
-	812,797
-	139,031
-	82,096
-	144,726
-	107,682
-	681,675
-	600,000
-	51,989
-	35,547
-	22,270
-	68,665
-	<u>14,897,293</u>
-	510,051
-	894,845
-	<u>326,798</u>
-	16,628,987
-	10,984,464
-	211,447
-	930,396
-	117,333
-	556,363
-	234,052
-	<u>999,155</u>
-	14,033,210
-	<u>1,553,847</u>
-	<u>15,587,057</u>
-	1,041,930
-	<u>5,952,339</u>
<u>\$ -</u>	<u>\$ 6,994,269</u>