

**NORTHWEST
YOUTH AND
FAMILY SERVICES**

REPORT ON AUDIT

JUNE 30, 2010



LETHERT, SKWIRA, SCHULTZ & CO. LLP

CERTIFIED PUBLIC ACCOUNTANTS ♦ BUSINESS CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Northwest Youth and Family Services**

We have audited the accompanying statement of financial position of **Northwest Youth and Family Services** (a nonprofit organization) as of **June 30, 2010**, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the **Northwest Youth and Family Services** 2009 Financial Statements, which were audited by other auditors whose report dated October 9, 2009, expressed an unqualified opinion on those statements.

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

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

November 23, 2010

A handwritten signature in black ink that reads "Lethert, Skwira, Schultz & Co. LLP".

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NORTHWEST YOUTH AND FAMILY SERVICES

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NORTHWEST YOUTH AND FAMILY SERVICES

1

Statement of Financial Position

June 30, 2010

(with comparative totals for 2009)

<u>ASSETS</u>	2010	2009
<u>Current Assets</u>		
Cash and equivalents	\$ 445,133	\$ 210,160
Accounts receivable, net of allowance for doubtful accounts, 2010, \$64,013 and 2009, \$114,400 (Note 3)	157,370	166,691
Pledges receivable (Note 4)	44,957	13,466
Grants receivable	39,673	74,753
Prepayments	8,939	8,700
Total Current Assets	696,072	473,770
<u>Property and Equipment</u>		
Land	480,000	480,000
Building and improvements	5,053,271	2,183,385
Construction-in-progress	-	1,613,725
Furniture and equipment	127,026	201,429
Total	5,660,297	4,478,539
Less: Accumulated depreciation	808,864	769,833
Total Property and Equipment	4,851,433	3,708,706
<u>Other Assets</u>		
Long-term investments (Note 2)	388,610	436,869
Long-term pledges receivable, net of present value adjustment (Note 4)	32,237	68,328
Deposits	2,600	2,600
Intangible assets	27,308	29,549
Total Other Assets	450,755	537,346
TOTAL ASSETS	\$ 5,998,260	\$ 4,719,822

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

NORTHWEST YOUTH AND FAMILY SERVICES

2

Statement of Financial Position

June 30, 2010

(with comparative totals for 2009)

<u>LIABILITIES AND NET ASSETS</u>	<u>2010</u>	<u>2009</u>
<u>Current Liabilities</u>		
Current maturities of long-term debt	\$ 93,699	\$ 113,263
Line of credit (Note 7)	-	14,645
Accounts payable	25,600	61,401
Construction payable	-	425,696
Accrued payroll and payroll taxes	25,433	-
Compensated absences payable	182,652	157,579
Accrued retirement contribution (Note 11)	3,284	-
Accrued expenses	17,366	393
Security deposits	10,220	13,949
Deferred revenue	229,466	158,323
Total Current Liabilities	587,720	945,249
 <u>Long-Term Debt (Note 8)</u>		
Long-term debt	3,459,892	1,957,289
Less: Current maturities	93,699	113,263
Total Long-Term Debt	3,366,193	1,844,026
 <u>Net Assets</u>		
<u>Unrestricted:</u>		
Undesignated	1,541,715	1,378,128
Designated for future endowment	16,386	16,648
Designated for building reserve	115,456	170,727
Designated for general operations	256,232	249,494
Total Unrestricted	1,929,789	1,814,997
Temporarily restricted (Note 10)	114,558	115,550
Net Assets	2,044,347	1,930,547
 TOTAL LIABILITIES AND NET ASSETS	 \$ 5,998,260	 \$ 4,719,822

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

NORTHWEST YOUTH AND FAMILY SERVICES

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Statement of Activities and Changes in Net Assets

For the Year Ended **June 30, 2010**
(with comparative totals for 2009)

	<u>2010</u>			<u>2009</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
<u>Support and Revenue</u>				
<u>Support</u>				
Grants	\$ 565,119	\$ -	\$ 565,119	\$ 555,615
Contributions	243,191	37,364	280,555	217,805
Special events	45,755	-	45,755	59,190
In-kind contributions	13,035	400	13,435	11,915
<u>Revenue</u>				
Program service fees	3,171,808	-	3,171,808	3,328,911
Rental income	178,863	-	178,863	187,022
Investment income (Note 2)	10,247	-	10,247	25,769
Conference fees	54,393	-	54,393	19,984
Miscellaneous	1,594	-	1,594	9,084
Net Assets Released from Restrictions	<u>38,756</u>	<u>(38,756)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>4,322,761</u>	<u>(992)</u>	<u>4,321,769</u>	<u>4,415,295</u>
<u>Expenses</u>				
<u>Program Services</u>				
Mental health	632,509	-	632,509	562,203
Community services	868,587	-	868,587	817,798
NET services program	<u>2,072,742</u>	<u>-</u>	<u>2,072,742</u>	<u>2,540,040</u>
Total Program Services	<u>3,573,838</u>	<u>-</u>	<u>3,573,838</u>	<u>3,920,041</u>
Management and general	122,579	-	122,579	162,409
Fund raising	224,494	-	224,494	247,661
Building rental expense	<u>287,058</u>	<u>-</u>	<u>287,058</u>	<u>251,628</u>
Total Supporting Services	<u>634,131</u>	<u>-</u>	<u>634,131</u>	<u>661,698</u>
Total Expenses	<u>4,207,969</u>	<u>-</u>	<u>4,207,969</u>	<u>4,581,739</u>
Increase (Decrease) in Net Assets	114,792	(992)	113,800	(166,444)
Net Assets, Beginning of Year	<u>1,814,997</u>	<u>115,550</u>	<u>1,930,547</u>	<u>2,096,991</u>
Net Assets, End of Year	<u>\$ 1,929,789</u>	<u>\$ 114,558</u>	<u>\$ 2,044,347</u>	<u>\$ 1,930,547</u>

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

NORTHWEST YOUTH AND FAMILY SERVICES

Statement of Functional Expenses

For the Year Ended **June 30, 2010**
(with comparative totals for 2009)

	2010				2009				
	PROGRAM SERVICES			SUPPORTING SERVICES					
	Mental Health	Community Services	NET Services Program	Total	Management and General	Fund Raising	Building Rental Expense	Total	Total
Salaries	\$ 466,167	\$ 534,124	\$ 1,418,976	\$ 2,419,267	\$ 75,697	\$ 159,526	\$ 33,115	\$ 2,687,605	\$ 2,867,921
Retirement plan contributions	3,722	5,554	33,219	42,495	1,911	1,402	125	45,933	113,690
Employee benefits	52,657	38,923	174,141	265,721	3,486	7,880	3,714	280,801	280,429
Payroll taxes	31,888	48,230	118,336	198,454	3,974	13,134	2,738	218,300	214,409
Total Salaries and Related Benefits	554,434	626,831	1,744,672	2,925,937	85,068	181,942	39,692	3,232,639	3,476,449
Program supplies and activities	-	75,178	10,464	85,642	-	-	-	85,642	114,521
Professional services	5,762	7,817	25,529	39,108	3,820	2,698	1,311	46,937	48,964
Office supplies	2,883	2,030	12,745	17,658	1,399	1,919	-	20,976	23,787
Other supplies	1,713	9,273	16,771	27,757	667	677	2,035	31,136	60,370
Telephone	2,132	8,892	8,421	19,445	980	1,059	496	21,980	27,990
Postage	2,189	744	4,618	7,551	244	1,458	-	9,253	11,665
Occupancy	5,043	91,151	94,150	190,344	5,042	5,043	57,377	257,806	358,058
Equipment rentals	829	882	8,508	10,219	513	603	371	11,706	10,960
Capital purchases	360	614	10,138	11,112	190	312	805	12,419	19,266
Printing	774	682	2,200	3,656	189	278	18	4,141	7,944
Travel	1,903	24,589	5,148	31,640	425	360	219	32,644	32,771
Conferences and meetings	37,202	1,319	4,186	42,707	350	506	-	43,563	34,987
Interest	-	-	-	-	-	-	153,790	153,790	69,674
Advertising	100	3,022	102	3,224	12	1,731	-	4,967	14,659
Board expenses	-	-	-	-	151	-	-	151	551
Consulting services	1,247	-	16,180	17,427	-	945	-	18,372	15,857
Dues and memberships	947	1,234	-	2,181	761	2,420	-	5,362	6,960
Insurance	6,423	4,794	22,973	34,190	2,865	705	16,988	54,748	68,160
Licenses and fees	2,250	-	1,480	3,730	591	-	-	4,321	1,774
Internet expense	376	408	3,386	4,170	264	335	227	4,996	8,084
Miscellaneous	1,700	625	2	2,327	2,734	2,641	997	8,699	13,492
Special events	-	-	29	29	-	14,620	-	14,649	25,923
Total Expenses Before Depreciation	628,267	860,085	1,991,702	3,480,054	106,265	220,252	274,326	4,080,897	4,452,866
Depreciation	4,242	8,502	81,040	93,784	16,314	4,242	12,732	127,072	128,873
Total Expenses	\$ 632,509	\$ 868,587	\$ 2,072,742	\$ 3,573,838	\$ 122,579	\$ 224,494	\$ 287,058	\$ 4,207,969	\$ 4,581,739

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

NORTHWEST YOUTH AND FAMILY SERVICES

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Statement of Cash Flows

For the Year Ended **June 30, 2010**
(with comparative totals for 2009)

<u>Cash Flows From Operating Activities</u>	<u>2010</u>	<u>2009</u>
Increase (decrease) in net assets	\$ 113,800	\$ (166,444)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	127,072	128,873
Increase (decrease) in cash flows from:		
Accounts receivable	9,321	4,390
Pledges receivable	(31,491)	(81,794)
Grants receivable	35,080	129,831
Prepayments	(239)	(8,700)
Long-term pledges receivable	36,091	-
Accounts payable	(35,801)	3,941
Construction payable	(425,696)	-
Accrued payroll and payroll taxes	25,433	-
Compensated absences payable	25,073	-
Accrued retirement contribution	3,284	-
Accrued expenses	16,973	31,692
Security deposits	(3,729)	-
Deferred revenue	71,143	95,206
Net Cash Provided (Used) by Operating Activities	(33,686)	136,995
 <u>Cash Flows From Investing Activities</u>		
Decrease in assets limited as to use	-	1,001,342
Sale (purchase) of investments	55,271	(25,769)
Increase in investments - board designated	(7,012)	12,534
Purchase of property and equipment	(1,267,558)	(1,220,031)
Net Cash Used by Investing Activities	(1,219,299)	(231,924)
 <u>Cash Flows From Financing Activities</u>		
Increase (decrease) on line of credit	(14,645)	14,645
Proceeds from long-term debt	1,585,000	(54,711)
Payments of long-term debt	(82,397)	-
Net Cash Provided (Used) by Financing Activities	1,487,958	(40,066)
 Net Increase (Decrease) in Cash and Equivalents	234,973	(134,995)
 Cash and Equivalents, Beginning of Year	210,160	345,155
 Cash and Equivalents, End of Year	\$ 445,133	\$ 210,160

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

NORTHWEST YOUTH AND FAMILY SERVICES

Statement of Cash Flows

For the Year Ended **June 30, 2010**
(with comparative totals for 2009)

Supplemental Disclosures of Cash Flows Information

	<u>2010</u>	<u>2009</u>
Cash Paid During the Year for:		
Interest Paid	\$ <u>153,790</u>	\$ <u>69,674</u>
Construction in Progress Expenditures Included in Current Liabilities	\$ <u>-</u>	\$ <u>425,696</u>

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

Notes to Financial Statements

June 30, 2010 and 2009

NOTE 1 NATURE OF ACTIVITIES

Nature of Activities

Northwest Youth & Family Services (NYFS or Organization) is a private, non-profit organization under Section 501(c)(3) committed to preparing youth and families for healthy lives. Services of the Organization include:

Out-Patient Mental Health Services:

Counseling Services - NYFS' licensed mental health professionals offer counseling services for individual and families age four through adult. Basic psychiatric care and medication services are also available for children and adolescents.

Educational and Support Groups - Mental health staff offers educational and support groups on issues such as raising children with ADHD, parenting teens and anger management for youth. New groups are developed as needed.

Northwest Educational and Therapeutic Services (NETS):

Established in August, 2004, NETS is a daily, year-round, day treatment program for youth that combines therapeutic services with educational programming to address the needs of severely emotionally disturbed youth.

To promote lasting improvement, NETS also emphasizes family participation and involvement.

Educational Program - Provided by Moundsvew School District Special Education teachers. Classes are smaller and more individualized to meet specific educational needs of our clients.

Mental Health Program - NETS mental health program consists of individual and group therapy, therapeutic recreation, creative arts, and life skills therapy.

Family Program - Family involvement is critical to the success of each client. Families are required to participate in individual and/or multi-family sessions and parent education sessions.

Community Services:

Penny Pinchers Thrift Store - Penny Pinchers provides low cost goods to people who need or want a deal and provides a training site for our Youth Employment Program. NYFS' thrift store provides quality used clothing, furniture, and household goods at affordable prices, and offers a local option to recycle quality clothing, furniture, and household goods. The Target Corporation subsidizes a voucher program for people in need to use at Penny Pinchers.

Youth Employment Program - This program helps youth ages 15-17 develop good work habits, learn practical job-seeking skills, and gain meaningful retail work experience through Penny Pinchers Thrift Store.

Senior Chore Program - Senior Chore links youth age 12 and older with area seniors in need of basic chore services. This program allows seniors to live independently while fostering intergenerational relationships and providing gainful work experience for youth.

Notes to Financial Statements

June 30, 2010 and 2009

NOTE 1 NATURE OF ACTIVITIES (CONTINUED)

Diversion - The Diversion Program works to reduce recidivism by imposing appropriate consequences and restitution services to youth who commit misdemeanor crimes.

Community Social Workers - Community social workers help families overcome barriers to healthy functioning through case management services. These services include connecting families with local support services and resources.

Discovery Program - This program helps at risk youth learn positive ways to engage their community and develop personal skills important to long-term success.

Summer Day Camp - NYFS offers multi-week summer camp experiences to youth residing in manufactured home areas. The program provides healthy recreation activities while day camp counselors teach and model appropriate social skills.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND USE OF ACCOUNTING ESTIMATES****Financial Statement Presentation**

The financial statements of the Organization have been prepared on the accrual basis of accounting.

The Organization follows the "Financial Statements of Not-for-Profit Organizations" standard which establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories follows.

Unrestricted net assets have no donor imposed restrictions, or the donor imposed restrictions have expired. Unrestricted net assets may be designated for a specific purposes by the Board of Directors.

Temporarily restricted net assets have donor imposed restrictions that are satisfied either by the passage of time or expenditures that meet the donor specified purpose.

Permanently restricted net assets have donor imposed restrictions which do not expire.

Accounting Estimates

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

Notes to Financial Statements

June 30, 2010 and 2009

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND USE OF ACCOUNTING ESTIMATES (CONTINUED)****Cash and Cash Equivalents**

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

Bad Debt Allowance

The Organization utilizes the reserve method to account for bad debts. Accounts receivable are presented net of allowances for bad debts of **\$64,013** and \$114,400 for the years ended **June 30, 2010** and 2009, respectively.

Support and Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. 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.

Program revenue is recorded when earned. The Organization extended unsecured credit to its clients in the normal course of activities.

The Organization uses the allowance method to determine uncollectible contributions and grants. The allowance is based on prior years' experience and management's analysis of the outstanding receivables. There was no allowance for pledges or grants for the years ended **June 30, 2010** and 2009.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third party payers. Management reviews receivables by payer class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write-off and recovery information in determining the estimated bad debt provision.

Investments

Investments are stated at fair value and consist of certificates of deposits. The investments at **June 30, 2010** and 2009 totaled **\$388,610** and \$436,869, respectively and are board designated for future endowment purpose, building reserve, and general operations.

Realized gains and losses are included in the Statement of Activities and Changes in Net Assets.

Unrealized gains and losses on investments are reflected in the Statement of Activities and Changes in Net Assets. Investment income and gains that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year the investment return is received.

Investment income consists entirely of interest earned on certificates of deposit.

Notes to Financial Statements

June 30, 2010 and 2009

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND USE OF ACCOUNTING ESTIMATES (CONTINUED)****Fair Value of Investments**

FASB ASC 820, Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets; Level 2 inputs include quoted prices for similar assets in markets that are not active; and, Level 3 inputs are unobservable inputs for the asset. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally proved the most reliable evidence of fair value.

All investments are valued at Level 1 at **June 30, 2010** and 2009.

Level 1 Fair Value Measurements

The fair value of certificates of deposit, common stock, and mutual funds is based on quoted net assets values of the shares held by the Organization at year-end.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditures for the acquisition of property and equipment greater than \$500 are capitalized at cost and donated property and equipment is capitalized at fair value. Depreciation is provided on the straight-line method over the following estimated useful lives:

Buildings and improvements	39 Years
Furniture and equipment	5-10 Years

Intangible Assets

Intangible assets consist of costs associated with locating tenants and deferred financing costs. The assets are being amortized using the straight-line method over the term of the asset.

Contributed Property and Services

In accordance with Accounting for Contributions Received and Contributions Made, donated services are recognized as contributions if the services (a) create or enhance non-financial assets; or, (b) require specialized skills, as performed by people with those skills, and would otherwise be purchased by the Organization. Property, services, and other noncash donations are recorded as in-kind contributions at their estimated fair market value at the date of the donation.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

Notes to Financial Statements

June 30, 2010 and 2009

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND USE OF ACCOUNTING ESTIMATES (CONTINUED)****Income Taxes**

The Organization was granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. The Organization is not classified as a private foundation. Building rental activities are not directly related to the Organization's tax exempt purpose and are subject to taxation as unrelated income.

In July, 2006, the Financial Accounting Standards Board (FASB) issued new guidance relating to Accounting for Uncertainty in Income Taxes, which was adopted by the Organization effective July 1, 2009. The new guidance under FASB ASC 740, *Income Taxes*, set a "more likely than not" criterion for recognizing the tax benefit of uncertain tax positions; it established measurement criteria for tax benefits and it established certain new disclosure requirements. The Organization has identified no such exposures. The current tax years open are 2006 through 2009. During the upcoming 12 months, the Organization expects no material changes to occur related to Accounting for Uncertainty in Income Taxes.

The Organization recognizes interest and penalties related to income taxes in operating expenses. The amount of interest and penalties currently recognized in tax expense totaled \$0 and \$0 for the years ended **June 30, 2010** and 2009, respectively.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function are allocated to components of these services based on allocation measures determined by management.

Summarized Financial Information

The financial information shown in the totals column as of June 30, 2009, and for the year then ended, is presented for comparative purposes only and is not intended to be a complete financial statement presentation. Data in these columns are not intended to present financial position or results of operations in conformity with accounting principals generally accepted in the United States of America. Such information should be read in conjunction with the **Northwest Youth and Family Services** financial statements for the year ended June 30, 2009, from which the summarized information is derived.

Compensated Absences

Under the Organization's policies and procedures, employees are granted vacation leave based on the number of years of experience they have at the Organization. Employees may accumulate a maximum of two years of their annual vacation leave benefit. Unused accumulated vacation is paid to employees upon termination.

Employees are able to earn and accumulate sick leave up to a maximum of ninety (90) days. Upon separation, full-time employees with ten or more years of service are entitled to 50 percent of their accumulated sick leave, but in no event will such severance exceed one month's pay.

Notes to Financial Statements

June 30, 2010 and 2009

NOTE 3 ACCOUNTS RECEIVABLEAccounts receivable consists of the following at **June 30, 2010** and 2009:

	<u>2010</u>	<u>2009</u>
Accounts receivable, Mental Health Services	\$ 69,585	\$ 62,545
Allowance for doubtful accounts and contractual adjustments	<u>(17,264)</u>	<u>(21,891)</u>
	52,321	40,654
Accounts receivable, NET Services	151,798	218,546
Allowance for doubtful accounts and contractual adjustments	<u>(46,749)</u>	<u>(92,509)</u>
	<u>105,049</u>	<u>126,037</u>
Total Accounts Receivable, Net of Allowance for Doubtful Accounts and Contractual Adjustments	\$ <u>157,370</u>	\$ <u>166,691</u>

NOTE 4 PLEDGES RECEIVABLEContributions receivable at **June 30, 2010** and 2009 are measured at present value of estimated future cash flows. Collection of receivables is expected as follows:

	<u>2010</u>	<u>2009</u>
Due in less than one year	\$ 44,957	\$ 13,466
Due in one to five years	<u>35,728</u>	<u>74,730</u>
Total	80,685	88,196
Less: Discount to net present value	<u>(3,491)</u>	<u>(6,402)</u>
Total Contributions Receivable	\$ <u>77,194</u>	\$ <u>81,794</u>

The pledges receivable have been discounted to present value using a discount rate of 5 percent.

NOTE 5 NET SERVICES

The NETS program is funded by contracts with a variety of school districts including Moundsview, Spring Lake Park, North St. Paul, White Bear Lake, Roseville, Columbia Heights, Centennial, and St. Paul. The contract period extends from July 1, 2009 through **June 30, 2010**. Per the contract, NYFS receives a specified dollar amount per student for services rendered. Any revenue generated from other sources such as state, county, or private resources are to be used to reduce the costs of services to the school districts. However, if such collections are less than originally estimated by either party, the school districts bear the responsibility of the increase in costs and will reimburse NYFS for any shortage. In the event that NYFS is over funded or underfunded, such amounts will be reconciled and paid subsequent to the contract period end of **June 30, 2010**. Any amount overfunded will offset the new contract amount for the period of July 1, 2010 through June 30, 2011.

Notes to Financial Statements

June 30, 2010 and 2009

NOTE 6 THIRD PARTY RATE ADJUSTMENTS

Client service revenue, included in program service fees, was derived under federal and state third party reimbursement programs along with other third party insurance companies that pay less than 100 percent of the Organization's fee. The Organization is contractually obligated to write-off the remaining amount. The Organization also provides mental health services on a sliding fee basis for individuals who do not have insurance and can not afford to pay the full cost of therapy. Day treatment sliding fees are subsidized entirely by the school districts.

Approximately twenty-five percent of Mental Health charges are contractual adjustments as a result of the reimbursement rates paid by insurance companies. All NETS Day Treatment sliding fee charges become contractual adjustments due to the school district subsidies. The amount of contractual adjustments varies from year to year as a result of the variable nature of the mix of clients who have insurance and those who require sliding fees.

NOTE 7 LINE OF CREDIT

At **June 30, 2010**, the Organization has a revolving credit line available from Anchor Bank for \$200,000, maturing February, 2011. The credit line bears interest at a base rate plus 1 percent (**5.18% at June 30, 2010**) and is secured by an agreement on the assets of the Organization.

The outstanding balance at **June 30, 2010** and 2009, is **\$0** and \$14,645, respectively.

NOTE 8 LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2010</u>	<u>2009</u>
Mortgage payable to Anchor Bank Heritage, N.A. bearing interest at 5.87 percent with monthly installments of \$14,360, matures June, 2018. Secured by building and subordinated to certain lease agreements.	\$ 1,899,923	\$ 1,957,289
Mortgage payable to Anchor Bank Heritage, N.A. bearing interest at 5.87 percent with monthly installments of \$10,165, matures January, 2012. Secured by building and subordinated to certain lease agreements.	<u>1,559,969</u>	<u>-</u>
Total	3,459,892	1,957,289
Less: Current maturities	<u>93,699</u>	<u>113,263</u>
Total Long-Term Debt	<u>\$ 3,366,193</u>	<u>\$ 1,844,026</u>

Notes to Financial Statements

June 30, 2010 and 2009

NOTE 8 LONG-TERM DEBT (CONTINUED)

The Organization was noncompliant with a debt covenant during 2010, and obtained a waiver notification for the noncompliance. Anchor Bank will not consider the Organization in default due to noncompliance and waives Anchor Bank's rights through June 30, 2011, for the conditions that existed on **June 30, 2010**.

The aggregate annual maturities of long-term debt at **June 30, 2010**, are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2011	\$ 93,699
2012	1,594,951
2013	70,217
2014	74,452
2015	78,942
After 2015	<u>1,547,631</u>
	<u>\$ 3,459,892</u>

During the year ended June 30, 2008, the Organization began a building addition and a remodeling project of the existing building. The project was approved by the Board on June 12, 2008, and on September 18, 2008, the Board approved and awarded the building contract for the addition. The cost of the addition and remodeling project was \$2,867,369. As of the **June 30, 2010**, the construction was completed. Total interest expense for the year ended **June 30, 2010**, was **\$228,903** and the amount of interest capitalized for the year was approximately **\$75,113**.

NOTE 9 LEASE OBLIGATIONS

As Lessee

At **June 30, 2010**, the Organization was obligated under a long-term lease for retail space, expiring January, 2011. Total rent per year including operating costs is approximately \$75,000. The Organization had another lease for the Summer Business Center which was \$13,131 per month, it expired August 2009.

Rent expense for these leases was approximately **\$100,000** for the year ended **June 30, 2010**.

The Organization is also obligated under a operating lease for equipment, expiring on July, 2012. Total rent per year will be \$5,388.

The following is a schedule of future minimum lease payments under operating leases:

<u>Year Ended June 30,</u>	<u>Amount</u>
2011	\$ 47,000
2012	5,000
2013	<u>900</u>
Total Minimum Future Lease Payments	<u>\$ 52,900</u>

Notes to Financial Statements

June 30, 2010 and 2009

NOTE 9 LEASE OBLIGATIONS (CONTINUED)*As Lessor*

The Organization leases office space in the building it occupies to tenants under noncancelable operating leases with terms of five to seven years. The current lease for Lutheran Youth Encounter has been renewed through 2015, the Greer's lease runs through September, 2010, and the lease with American Red Cross ended **June 30, 2010**.

Future minimum rentals, not including operating costs, under these lease agreements are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2011	\$ 116,000
2012	115,000
2013	117,000
2014	119,000
2015	152,000
Total Minimum Future Lease Payments	\$ <u>619,000</u>

NOTE 10 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2010</u>	<u>2009</u>
McKnight Foundation	\$ -	\$ 25,000
Target Foundation	10,000	-
Allianz Life Insurance	5,000	-
The Pentair Foundation	5,000	-
Foundation and Individuals - Capital Contributions	77,194	81,794
Mental Heath Hardship Fund	-	5,000
Under \$5,000	17,364	3,756
Total Temporarily Restricted Net Assets	\$ <u>114,558</u>	\$ <u>115,550</u>

Net assets were released by incurring expenses satisfying the restricted purposes specified by donors.

	<u>2010</u>	<u>2009</u>
McKnight Foundation	\$ 25,000	\$ 85,000
Foundation and Individuals - Capital Contributions	4,600	-
Mental Heath Hardship Fund	5,000	-
In-kind	400	-
Under \$5,000	3,756	5,350
Total Temporarily Restricted Net Assets	\$ <u>38,756</u>	\$ <u>90,350</u>

Notes to Financial Statements

June 30, 2010 and 2009

NOTE 11 RETIREMENT PLAN

The Board of Directors approved the termination of the **Northwest Youth and Family Services** tax-sheltered annuity plan under Section 403(b) of the Internal Revenue Code as of December 31, 2008.

A Board of Directors Resolution to adopt the **Northwest Youth and Family Services** 401(k) Plan and the **Northwest Youth and Family Services** 401(k) Trust was adopted on August 14, 2008.

Employees are eligible to participate after one year of service with the Organization. The employer will contribute an additional 5.5 percent of the participant's salary if the participant contributes at least 4 percent of their salary. Total contributions made by the Organization for the years ended **June 30, 2010** and 2009, were approximately **\$46,000** and \$114,000, respectively. The matching portion was suspended January 1, 2010.

NOTE 12 COMMITMENTS AND CONTINGENCIES

Substantially all support and revenue is received from individual, charitable organizations, foundations, and governmental entities: therefore, the continuation of certain programs for the Organization is dependent upon future funding.

Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to grantors. Although that is a possibility, the Board deems the contingency remote, since by accepting grants and their terms it has accommodated the objectives of the Organization to the provisions of the grants.

NOTE 13 SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 23, 2010.