NORTHWEST YOUTH AND FAMILY SERVICES

REPORT ON AUDIT

JUNE 30, 2011

LSS

LETHERT, SKWIRA, SCHULTZ & CO. LLP
CERTIFIED PUBLIC ACCOUNTANTS ◆ BUSINESS CONSULTANTS

Helping Business Conduct Business Since 1918

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 Minnesota nonprofit organization) as of **June 30, 2011**, 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 Organization's 2009 financial statements and in our report dated November 22, 2010, 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. 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, 2011**, 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.

October 31, 2011

Lethert, Skwira, Schultz & Co. LLP

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NORTHWEST YOUTH AND FAMILY SERVICES

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Balance Sheet

June 30, 2011
(with comparative totals for 2010)

ASSETS	2011	2010
Current Assets		
Cash and equivalents	$ 352,734	$ 445,133
Cash, restricted (Note 4)	433,117	-
Accounts receivable, net of allowance for doubtful accounts, **2011**, **$53,760** and 2010, $64,013 (Note 5)	136,861	157,370
Pledges receivable (Note 6)	1,043	44,957
Grants receivable	75,286	39,673
Fiscal Agency receivable (Note 4)	260,507	-
Prepayments	30,095	8,939
Total Current Assets	1,289,643	696,072
Property and Equipment		
Land	480,000	480,000
Building and improvements	5,137,841	5,053,271
Furniture and equipment	123,752	127,026
Total	5,741,593	5,660,297
Less: Accumulated depreciation	988,135	808,864
Total Property and Equipment	4,753,458	4,851,433
Other Assets		
Long-term investments (Note 2)	395,856	388,610
Long-term pledges receivable, net of present value adjustment (Note 6)	31,528	32,237
Deposits	2,600	2,600
Intangible assets	55,282	27,308
Total Other Assets	485,266	450,755
TOTAL ASSETS	$ 6,528,367	$ 5,998,260

Balance Sheet

June 30, 2011
(with comparative totals for 2010)

LIABILITIES AND NET ASSETS	2011	2010
Current Liabilities		
Current maturities of long-term debt	$ **107,000**	$ 93,699
Accounts payable	**9,893**	25,600
Fiscal agency payable (Note 4)	**693,624**	-
Accrued payroll and payroll taxes	**21,018**	25,433
Compensated absences payable	**178,703**	182,652
Accrued retirement contribution (Note 14)	**-**	3,284
Accrued expenses	**33,223**	17,366
Security deposits	**10,220**	10,220
Deferred revenue	**159,234**	229,466
Total Current Liabilities	**1,212,915**	587,720
Long-Term Debt (Note 11)		
Long-term debt	**3,401,760**	3,459,892
Less: Current maturities	**107,000**	93,699
Total Long-Term Debt	**3,294,760**	3,366,193
Net Assets		
Unrestricted:		
Undesignated	**1,518,363**	1,541,715
Designated for future endowment	**17,020**	16,386
Designated for building reserve	**117,452**	115,456
Designated for general operations	**261,384**	256,232
Total Unrestricted	**1,914,219**	1,929,789
Temporarily restricted (Note 13)	**106,473**	114,558
Net Assets	**2,020,692**	2,044,347
TOTAL LIABILITIES AND NET ASSETS	$ **6,528,367**	$ 5,998,260

Statement of Activities and Changes in Net Assets

For the Year Ended **June 30, 2011**
(with comparative totals for 2010)

	2011			2010
	Unrestricted	**Temporarily Restricted**	**Total**	Total
Support and Revenue				
Support				
Grants	$ 353,038	$ 51,838	$ 404,876	$ 565,119
Contributions	71,648	-	71,648	280,555
Special events	48,990	-	48,990	45,755
In-kind contributions	12,422	-	12,422	13,435
Revenue				
Program service fees	3,576,368	-	3,576,368	3,171,808
Rental income	166,760	-	166,760	178,863
Investment income (Note 2)	7,758	-	7,758	10,247
Conference fees	18,286	-	18,286	54,393
Miscellaneous	1,386	-	1,386	1,594
Loss on disposal of property	(223)	-	(223)	-
Total Support and Revenue	4,256,433	51,838	4,308,271	4,321,769
Expenses				
Program Services				
Mental health	650,026	-	650,026	632,509
Community services	946,089	-	946,089	868,587
NET services program	2,000,368	-	2,000,368	2,072,742
Total Program Services	3,596,483	-	3,596,483	3,573,838
Management and general	143,855	-	143,855	122,579
Fund raising	194,307	-	194,307	224,494
Building rental expense	397,281	-	397,281	287,058
Total Supporting Services	735,443	-	735,443	634,131
Total Expenses	4,331,926	-	4,331,926	4,207,969
Restrictions satisfied by payments	59,923	(59,923)	-	-
Increase (Decrease) in Net Assets	(15,570)	(8,085)	(23,655)	113,800
Net Assets, Beginning of Year	1,929,789	114,558	2,044,347	1,930,547
Net Assets, End of Year	$ 1,914,219	$ 106,473	$ 2,020,692	$ 2,044,347

NORTHWEST YOUTH AND FAMILY SERVICES

Statement of Functional Expenses

For the Year Ended **June 30, 2011**
(with comparative totals for 2010)

	2011								2010
	PROGRAM SERVICES				SUPPORTING SERVICES				
	Mental Health	Community Services	NET Services Program	Total	Management and General	Fund Raising	Building Rental Expense	Total	Total
Salaries	$ 499,570	$ 615,620	$ 1,427,455	$ 2,542,645	$ 67,271	$ 136,691	$ 56,936	$ 2,803,543	$ 2,687,605
Retirement plan contributions	-	-	-	-	-	-	-	-	45,933
Employee benefits	51,066	37,281	174,798	263,145	3,823	10,081	5,134	282,183	280,801
Payroll taxes	28,746	39,324	86,046	154,116	5,530	8,473	3,448	171,567	218,300
Total Salaries and Related Benefits	579,382	692,225	1,688,299	2,959,906	76,624	155,245	65,518	3,257,293	3,232,639
Program supplies and activities	-	75,765	15,371	91,136	-	-	-	91,136	85,642
Professional services	5,663	5,660	15,985	27,308	4,518	1,190	742	33,758	46,937
Office supplies	3,069	1,580	12,115	16,764	1,910	1,681	-	20,355	20,976
Other supplies	2,486	7,504	22,789	32,779	897	867	2,900	37,443	31,136
Telephone	2,989	9,227	7,805	20,021	932	1,038	994	22,985	21,980
Postage	2,202	666	4,396	7,264	242	1,101	225	8,832	9,253
Occupancy	4,941	92,434	71,707	169,082	6,006	5,900	57,580	238,568	257,806
Equipment rentals	730	763	6,559	8,052	712	660	433	9,857	11,706
Capital purchases	134	1,654	9,730	11,518	822	1,306	7,901	21,547	12,419
Printing	796	608	2,501	3,905	222	267	12	4,406	4,141
Travel	1,845	25,812	1,894	29,551	849	181	210	30,791	32,644
Conferences and meetings	24,237	1,658	3,879	29,774	287	806	58	30,925	43,563
Interest	-	-	-	-	-	-	216,141	216,141	153,790
Advertising	-	835	-	835	-	556	-	1,391	4,967
Board expenses	-	-	-	-	-	-	-	-	151
Consulting services	1,696	1,146	5,118	7,960	17	30	-	8,007	18,372
Dues and memberships	1,039	1,234	-	2,273	653	2,887	-	5,813	5,362
Insurance	6,859	13,276	21,124	41,259	2,527	790	17,217	61,793	54,748
Licenses and fees	1,075	259	2,290	3,624	10	-	-	3,634	4,321
Internet expense	132	135	1,600	1,867	99	128	87	2,181	4,996
Miscellaneous	1,674	987	(1,730)	931	3,719	242	35	4,927	8,699
Special events	-	-	-	-	-	10,355	-	10,355	14,649
Total Expenses Before Depreciation	640,949	933,428	1,891,432	3,465,809	101,046	185,230	370,053	4,122,138	4,080,897
Depreciation	9,077	12,661	108,936	130,674	42,809	9,077	27,228	209,788	127,072
Total Expenses	$ 650,026	$ 946,089	$ 2,000,368	$ 3,596,483	$ 143,855	$ 194,307	$ 397,281	$ 4,331,926	$ 4,207,969
% to total excluding building rental expense	17 %	24 %	50 %	91 %	4 %	5 %		100 %	
% to total including building rental expense	15 %	22 %	46 %	83 %	3 %	4 %	10 %	100 %	

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

Statement of Cash Flows

For the Year Ended **June 30, 2011**
(with comparative totals for 2010)

Cash Flows From Operating Activities	**2011**	2010
Increase (decrease) in net assets	**$ (23,655)**	$ 113,800
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	**209,788**	127,072
Loss on disposal of property	**223**	-
Increase (decrease) in cash flows from:		
Accounts receivable	**20,509**	9,321
Pledges receivable	**43,914**	(31,491)
Grants receivable	**(35,613)**	35,080
Prepayments	**(21,156)**	(239)
Short-term investments	**-**	2
Long-term pledges receivable	**709**	36,091
Accounts payable	**(15,707)**	(35,801)
Construction payable	**-**	(425,696)
Accrued payroll and payroll taxes	**(4,415)**	25,433
Compensated absences payable	**(3,949)**	25,073
Accrued retirement contribution	**(3,284)**	3,284
Accrued expenses	**15,857**	16,973
Security deposits	**-**	(3,729)
Deferred revenue	**(70,232)**	71,143
Net Cash Provided (Used) by Operating Activities	**112,989**	(33,686)
Cash Flows From Investing Activities		
Sale of investments	**-**	55,271
Increase in investments - Board designated	**(7,246)**	(7,012)
Purchase of property and equipment	**(141,410)**	(1,267,558)
Sale of property and equipment	**1,400**	-
Net Cash Used by Investing Activities	**(147,256)**	(1,219,299)
Cash Flows From Financing Activities		
Decrease on line of credit	**-**	(14,645)
Proceeds from long-term debt	**3,420,000**	1,585,000
Payments of long-term debt	**(3,478,132)**	(82,397)
Net Cash Provided (Used) by Financing Activities	**(58,132)**	1,487,958
Net Increase (Decrease) in Cash and Equivalents	**(92,399)**	234,973
Cash and Equivalents, Beginning of Year	**445,133**	210,160
Cash and Equivalents, End of Year	**$ 352,734**	$ 445,133

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

Statement of Cash Flows

For the Year Ended **June 30, 2011**
(with comparative totals for 2010)

Supplemental Disclosures of Cash Flows Information

	2011	2010
Cash Paid During the Year for:		
Interest Paid	**$ 202,612**	$ 153,790

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 Moundsview 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. The store was closed during the year ended **June 30, 2011**.

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.

NOTE 1 NATURE OF ACTIVITIES (CONTINUED)

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.

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.

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.

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, 2011** and 2010.

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. The Organization does not charge interest on accounts receivable. For the years ended **June 30, 2011** and 2010, the Organization had allowance for bad debts of **$53,760** and $64,013, respectively.

Investments

Investments are stated at cost and consist of certificates of deposits. The investments at **June 30, 2011** and 2010 totaled **$395,856** and $388,610, 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.

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

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 2 inputs because they generally proved the most reliable evidence of fair value.

Fair Value Measurements at Reporting Date Using:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2011				
Certificates of deposit	$ 395,856	-	$ 395,856	-
June 30, 2010				
Certificates of deposit	$ 388,610	-	$ 388,610	-

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

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

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.

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 2007 through 2010. 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, 2011** and 2010, 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.

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

Summarized Financial Information

The financial information shown in the totals column as of June 30, 2010, 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, 2010, from which the summarized information is derived.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled **$1,391** and $4,967 for the years ended **June 30, 2011** and 2010, respectively.

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.

NOTE 3 CONCENTRATIONS OF CREDIT RISK

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

NOTE 4 COLLABORATIVE AGREEMENT

The Organization is acting as the fiscal agent for Ramsey County Children's Mental Health Collaborative. The Organization receives and disburses funds On their behalf. As a fiscal agent, the Organization does not record revenue or expense, but only assets and liabilities of the agency. At **June 30, 2011**, the Organization had fiscal agent cash of **$433,117**; a receivable of **$260,507**; and a fiscal agent payable of **$693,624**.

During the year ended **June 30, 2011**, the Organization was reimbursed **$44,300** from the Collaborative for expenditures related to fiscal agent services. In addition the Collaborative contracted with the Organization for mental health services in the amount of **$31,325** for the years ended **June 30, 2011**. During the year ended **June 30, 2011**,the Organization was reimbursed **$45,000** of administrative fees from Case Management related to handling all of the case management contracts.

NOTE 5 ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at **June 30, 2011** and 2010:

	2011	2010
Accounts receivable, Mental Health Services	**$ 58,127**	$ 69,585
Allowance for doubtful accounts and contractual adjustments	**(14,532)**	(17,264)
	43,595	52,321
Accounts receivable, NET Services	**132,494**	151,798
Allowance for doubtful accounts and contractual adjustments	**(39,228)**	(46,749)
	93,266	105,049
Total Accounts Receivable, Net of Allowance for Doubtful Accounts and Contractual Adjustments	**$ 136,861**	$ 157,370

NOTE 6 PLEDGES RECEIVABLE

Contributions receivable at **June 30, 2011** and 2010, are measured at present value of estimated future cash flows. Collection of receivables is expected as follows:

	2011	2010
Due in less than one year	**$ 1,043**	$ 44,957
Due in one to five years	**32,909**	35,728
Total	**33,952**	80,685
Less: Discount to net present value	**(1,381)**	(3,491)
Total Contributions Receivable	**$ 32,571**	$ 77,194

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

NOTE 7 INTANGIBLE ASSETS

At **June 30, 2011** and 2010, intangible assets consist of the following:

	2011			2010		
	Cost	**Accumulated Amortization**	**Net Value**	**Cost**	**Accumulated Amortization**	**Net Value**
Prepaid mortgage costs	**$ 56,219**	**$ 937**	**$ 55,282**	$ 31,656	$ 4,348	$ 27,308

Amortization of intangible assets for the years ended **June 30, 2011** and 2010, was **$28,245** and $3,165, respectively.

NOTE 7 INTANGIBLE ASSETS (CONTINUED)

The aggregate annual amortization of intangible assets at **June 30, 2011** is:

Year Ended June 30,	Amount
2012	$ 5,622
2013	5,622
2014	5,622
2015	5,622
2016	5,622
After 2016	27,172
	$ 55,282

NOTE 8 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, 2010 through **June 30, 2011**. 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, 2011.** Any amount overfunded will offset the new contract amount for the period of July 1, 2011 through June 30, 2012.

NOTE 9 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 10 LINE OF CREDIT

At **June 30, 2011**, the Organization has a revolving credit line available from Anchor Bank for $200,000, maturing December, 2011. The credit line bears interest at a base rate plus 1 percent **(5.17% at June 30, 2011)** and is secured by an agreement on the assets of the Organization.

The outstanding balance at **June 30, 2011** and 2010, is **$0** and $0, respectively.

NOTE 11 LONG-TERM DEBT

Long-term debt consists of the following:

	2011	2010
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
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.	**-**	1,559,969
Mortgage payable to Anchor Bank Heritage, N.A. bearing interest at 4.53% with monthly installments of $11,650, matures May, 2021. Secured by building.	**3,031,793**	-
Mortgage payable Anchor Bank Heritage, N.A. bearing interest at 6.76% with monthly installments of $10,675, matures September, 2014. Secured by building.	**369,967**	-
Total	**3,401,760**	3,459,892
Less: Current maturities	**107,000**	93,699
Total Long-Term Debt	**$ 3,294,760**	$ 3,366,193

NOTE 11 LONG-TERM DEBT (CONTINUED)

The Organization was noncompliant with a debt covenant during 2011, 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, 2012, for the conditions that existed on **June 30, 2011**.

The aggregate annual maturities of long-term debt at **June 30, 2011**, are as follows:

Year Ended June 30,	Amount
2012	$ 107,000
2013	114,000
2014	122,000
2015	121,000
2016	128,000
After 2016	2,809,760
	$ 3,401,760

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 ended June 30, 2010, was approximately $75,113.

NOTE 12 LEASE OBLIGATIONS

As Lessee

At **June 30, 2011**, the Organization was obligated under a long-term lease for retail space, that expired January, 2011. Total rent per year including operating costs is approximately $75,000.

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

Rent expense for these leases was approximately **$75,000** and $100,000 for the year ended **June 30, 2011** and 2010, respectively.

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

Year Ended June 30,	Amount
2012	$ 5,000
2013	900
Total Minimum Future Lease Payments	**$ 5,900**

NOTE 12 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, 2013, 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:

Year Ended June 30,	Amount
2012	$ 177,000
2013	179,000
2014	168,000
2015	167,000
2016	58,000
Total Minimum Future Lease Payments	**$ 749,000**

NOTE 13 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2011	2010
McKnight Foundation	**$ 12,500**	$ -
Target Foundation	**-**	10,000
Allianz Life Insurance	**-**	5,000
The Pentair Foundation	**-**	5,000
Foundation and Individuals - Capital Contributions	**33,952**	77,194
Municipalities	**7,832**	-
Minnesota Arts Board	**7,900**	-
Under $5,000	**20**	17,364
Fiscal Agent contract	**44,269**	-
Total Temporarily Restricted Net Assets	**$ 106,473**	$ 114,558

NOTE 13 TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

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

	2011	2010
McKnight Foundation	$ -	$ 25,000
Target Foundation	10,000	-
Allianz Life Insurance	5,000	-
The Pentair Foundation	5,000	-
Foundation and Individuals - Capital Contributions	33,430	4,600
Mental Heath Hardship Fund	-	5,000
In-kind	-	400
Under $5,000	6,493	3,756
Total Temporarily Restricted Net Assets Released	$ 59,923	$ 38,756

NOTE 14 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, 2011** and 2010, were approximately **$0** and $46,000, respectively. The matching portion was suspended January 1, 2010.

NOTE 15 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 16 SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 31, 2011, the date the financial statements were available to be issued.