

SOUTHSIDE FAMILY NURTURING CENTER

FINANCIAL STATEMENTS

Years Ended December 31, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

SOUTHSIDE FAMILY NURTURING CENTER

We have audited the statement of financial position of Southside Family Nurturing Center (A Minnesota Nonprofit Corporation) as of December 31, 2009 and 2008 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted 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 audits provide 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 Southside Family Nurturing Center as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles generally accepted in the United States of America.

Maple Grove, Minnesota
June 18, 2010

SOUTHSIDE FAMILY NURTURING CENTER

STATEMENTS OF FINANCIAL POSITION

December 31, 2009 and 2008

	<u>ASSETS</u>	
	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash	\$ 61,311	\$ 75,637
Accounts receivable <i>(note 1)</i>	118,424	95,160
Unconditional promises to give:		
Unrestricted <i>(notes 1 and 2)</i>	33,319	40,458
Prepaid expenses	9,864	7,573
TOTAL CURRENT ASSETS	<u>222,918</u>	<u>218,828</u>
 PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation <i>(notes 1 and 3)</i>	 1,565,669	 1,606,390
 OTHER ASSETS		
Loan fees, net <i>(note 1)</i>	<u>2,353</u>	<u>3,171</u>
 TOTAL ASSETS	 <u>\$ 1,790,940</u>	 <u>\$ 1,828,389</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Credit card payable <i>(note 4)</i>	\$ 66,735	\$ 92,626
Current maturities of long-term debt <i>(note 5)</i>	25,239	19,476
Accounts payable	5,715	37,772
Accrued expenses:		
Payroll and related withholdings	35,426	37,101
Interest	1,411	-
TOTAL CURRENT LIABILITIES	<u>134,526</u>	<u>186,975</u>
 LONG-TERM DEBT, less current portion above <i>(note 5)</i>	 <u>268,937</u>	 <u>298,258</u>
 TOTAL LIABILITIES	 403,463	 485,233
 NET ASSETS	 <u>1,387,477</u>	 <u>1,343,156</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,790,940</u>	 <u>\$ 1,828,389</u>

See Notes to Financial Statements

SOUTHSIDE FAMILY NURTURING CENTER

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT <i>(notes 1 and 8)</i>			
Contributions:			
United Way	\$ 315,424	\$ -	\$ 315,424
Corporations and foundations	277,806	-	277,806
Churches and individuals	59,527	-	59,527
State of Minnesota Child Care Food Program	22,366	-	22,366
Total contributions	675,123	-	675,123
Program service fees - Hennepin County	797,957	-	797,957
Debt forgiveness	4,000	-	4,000
Investment earnings	27	-	27
TOTAL REVENUE AND OTHER SUPPORT	1,477,107	-	1,477,107
EXPENSES			
Program expenses - Healthy Families	75,708	-	75,708
Program expenses - Southside	1,041,004	-	1,041,004
Supporting services:			
Management and general	235,179	-	235,179
Fundraising	72,848	-	72,848
Loss on disposal of property and equipment	8,047	-	8,047
TOTAL EXPENSES	1,432,786	-	1,432,786
INCREASE (DECREASE) IN NET ASSETS	44,321	-	44,321
NET ASSETS, beginning of year	1,343,156	-	1,343,156
NET ASSETS, end of year	\$ 1,387,477	\$ -	\$ 1,387,477

See Notes to Financial Statements

SOUTHSIDE FAMILY NURTURING CENTER

STATEMENTS OF ACTIVITIES

Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT (notes 1 and 8)			
Contributions:			
United Way	\$ 247,080	\$ -	\$ 247,080
Corporations and foundations	157,285	-	157,285
Churches and individuals	40,430	-	40,430
State of Minnesota Child Care Food Program	23,102	-	23,102
Capital campaign	-	195,155	195,155
Total contributions	467,897	195,155	663,052
Program service fees - Hennepin County	855,825	-	855,825
Debt forgiveness	4,000	-	4,000
Investment earnings	62	-	62
Other	9,798	-	9,798
TOTAL REVENUE	1,337,582	195,155	1,532,737
Net assets released from restrictions			
Restrictions satisfied by payments - Capital campaign	201,031	(201,031)	-
TOTAL REVENUE AND OTHER SUPPORT	1,538,613	(5,876)	1,532,737
EXPENSES			
Program expenses - Healthy Families	47,951	-	47,951
Program expenses - Southside	1,055,800	-	1,055,800
Supporting services:			
Management and general	234,970	-	234,970
Fundraising	71,037	-	71,037
TOTAL EXPENSES	1,409,758	-	1,409,758
INCREASE (DECREASE) IN NET ASSETS	128,855	(5,876)	122,979
NET ASSETS, beginning of year	1,214,301	5,876	1,220,177
NET ASSETS, end of year	\$ 1,343,156	\$ -	\$ 1,343,156

See Notes to Financial Statements

SOUTHSIDE FAMILY NURTURING CENTER

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2009

		<u>Supporting Services</u>			
	Program Services Healthy Families	Program Services Southside	Management and General	Fundraising	Total
Amortization	\$ -	\$ 614	\$ 204	\$ -	\$ 818
Contracted services	-	21,903	4,167	15,600	41,670
Depreciation	-	42,659	14,219	-	56,878
Food program meals	-	25,019	-	-	25,019
Fundraising	-	-	-	1,490	1,490
Insurance	603	148,321	49,641	-	198,565
Interest expense	-	22,331	7,443	-	29,774
Legal and accounting	-	-	29,926	-	29,926
Other	-	5,974	1,991	-	7,965
Program expenses	1,474	21,827	-	-	23,301
Public relations	-	1,896	632	-	2,528
Rent	-	-	6,129	-	6,129
Repairs and maintenance	-	-	60,425	-	60,425
Salaries and benefits	72,314	709,184	52,380	55,758	889,636
Supplies	233	8,525	2,919	-	11,677
Telephone and utilities	1,084	14,225	5,103	-	20,412
Training	-	3,910	-	-	3,910
Transportation	-	14,616	-	-	14,616
TOTAL EXPENSES	<u>\$ 75,708</u>	<u>\$ 1,041,004</u>	<u>\$ 235,179</u>	<u>\$ 72,848</u>	<u>\$ 1,424,739</u>

See Notes to Financial Statements

SOUTHSIDE FAMILY NURTURING CENTER

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2008

			Supporting Services		
	Program Services Healthy Families	Program Services Southside	Management and General	Fundraising	Total
Amortization	\$ -	\$ 614	\$ 204	\$ -	\$ 818
Contracted services	-	22,983	4,220	15,000	42,203
Depreciation	-	42,332	14,110	-	56,442
Food program meals	-	25,959	-	-	25,959
Fundraising	-	-	-	1,171	1,171
Insurance	450	133,608	44,686	-	178,744
Interest expense	-	21,264	7,088	-	28,352
Legal and accounting	-	-	31,228	-	31,228
Other	-	5,081	1,694	-	6,775
Program expenses	200	32,394	-	-	32,594
Public relations	-	6,059	2,020	-	8,079
Rent	-	-	5,693	-	5,693
Repairs and maintenance	-	-	69,941	-	69,941
Salaries and benefits	46,472	714,328	44,985	54,866	860,651
Supplies	-	9,356	3,119	-	12,475
Telephone and utilities	829	17,121	5,982	-	23,932
Training	-	7,629	-	-	7,629
Transportation	-	17,072	-	-	17,072
TOTAL EXPENSES	\$ 47,951	\$ 1,055,800	\$ 234,970	\$ 71,037	\$ 1,409,758

See Notes to Financial Statements

SOUTHSIDE FAMILY NURTURING CENTER

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 44,321	\$ 122,979
Adjustments to reconcile increase in net assets to		
Net cash flows from operating activities:		
Debt forgiveness	(4,000)	(4,000)
Amortization	818	818
Depreciation	56,878	56,442
Loss on disposal of property and equipment	8,047	461
Changes in operating assets and liabilities which		
increases or decreases cash:		
Accounts receivable	(23,264)	(19,441)
Unconditional promises to give	7,139	(6,726)
Prepaid expenses	(2,291)	4,311
Payroll tax refund	-	499
Accounts payable and accrued expenses	(32,321)	1,654
NET CASH FLOWS FROM OPERATING ACTIVITIES	55,327	156,997
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment	1,200	7,365
Purchases of property and equipment	(25,404)	(317,933)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(24,204)	(310,568)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from credit card	249,109	215,162
Repayment of credit card	(275,000)	(190,441)
Repayment of long-term debt	(19,558)	(17,810)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(45,449)	6,911
 NET INCREASE (DECREASE) IN CASH	 (14,326)	 (146,660)
CASH, BEGINNING OF YEAR	75,637	222,297
CASH, END OF YEAR	\$ 61,311	\$ 75,637

The following is a summary of supplemental cash flow information:

Cash paid for interest	\$ 28,363	\$ 10,637
Noncash investing and financing activities:		
Equipment acquired with long-term debt	\$ -	\$ 79,109
Loan fees withheld from long-term proceeds	\$ -	\$ 4,090

See Notes to Financial Statements

SOUTHSIDE FAMILY NURTURING CENTER

NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Southside Family Nurturing Center (Southside) is a nonprofit corporation chartered in the State of Minnesota. Southside operates a therapeutic center, for families vulnerable to the cycle of abuse and neglect that serves low-income families in the Phillips neighborhood of Minneapolis, and is primarily supported by various governmental and private grants and by public support.

Financial Statement Presentation - Southside is required to report information regarding its financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Basis of Accounting - The accompanying financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principals.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of asset and liabilities and the disclosure of contingent asset and liabilities at the date of the financial statements. In addition, they affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions.

Cash and Cash Equivalents - Cash includes cash on hand, bank demand deposit accounts and money market accounts.

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. Base on management's assessment of the credit history with clients having outstanding balances and current relationships with them, it has concluded that realized losses on balances outstanding at year end will be immaterial.

Promises to Give - 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.

Management believes all promises to give are collectible and, therefore, has not established an allowance for doubtful accounts.

Loan Fees - Loan fees are amortized on a straight line basis over the life of the loan. Amortization expense for the years ended December 31, 2009 and 2008 was \$818. Accumulated amortization at December 31, 2009 and 2008 was \$1,738 and \$920.

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SOUTHSIDE FAMILY NURTURING CENTER

NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation - Depreciation is computed on the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Lives</u>
Building and improvements	15 - 40 years
Furniture and equipment	5 - 10 years

Long-lived Assets - Southside periodically evaluates the carrying value of long-lived assets to be held and used, including but not limited to, capital assets and intangible assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair values are reduced for the cost to dispose. No losses from impairment have been recognized in the financial statements.

Revenue Recognition and Deferred Revenue - Contributions are recognized when the donor makes a promise to give to Southside 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. Revenue from government contracts is recognized as services are provided.

Allocation of Functional Expenses - Salary and benefit expenses are allocated between program services, general and administrative and fund-raising based upon the estimated amount of time employees spend in each area. Other expenses are allocated based on the actual amounts spent for program services and general and administrative services.

Tax Status - A notification letter dated July 4, 1979, was received from the Internal Revenue Service (IRS), stating that Southside is a tax-exempt organization under the provision of Internal Revenue code Section 501(c) (3).

Donated services and materials - Southside receives donated services from a variety of unpaid volunteers assisting in the therapeutic and education programs. No amounts have been recognized in the accompanying statements of activities for volunteer efforts, as it is not required under SFAS No. 116.

SOUTHSIDE FAMILY NURTURING CENTER

NOTES TO FINANCIAL STATEMENTS

(2) PROMISES TO GIVE

Unconditional promises to give at December 31 are as follows:

	2009	2008
Unrestricted promises	\$ 33,319	\$ 40,458
Temporary restricted promises	-	-
Gross unconditional promises to give	33,319	40,458
Less discounts to net present value	-	-
Net unconditional promises to give	\$ 33,319	\$ 40,458
Amounts due in less than one year	\$ 33,319	\$ 40,458

Unconditional promises to give due in more than one year are reflected at the present value of estimated cash flows using a discount rate of 6%. At December 31, 2009 and 2008, there were no unconditional promises to give exceeding one year.

(3) PROPERTY AND EQUIPMENT

Property and equipment is comprised of:

	December 31,	
	2009	2008
Cost:		
Land	\$ 5,000	\$ 5,000
Building and improvements	2,023,785	2,025,202
Furniture and equipment	184,049	171,371
Total cost	2,212,834	2,201,573
Accumulated depreciation	647,165	595,183
Net property and equipment	\$ 1,565,669	\$ 1,606,390

Depreciation on the above property and equipment charged to operations was \$56,878 and \$56,442 for the years ended December 31, 2009 and 2008.

SOUTHSIDE FAMILY NURTURING CENTER

NOTES TO FINANCIAL STATEMENTS

(4) CREDIT CARD PAYABLE

Southside has an unsecured revolving credit card with a \$150,000 credit limit. Interest is payable monthly at 5%. The balance outstanding at December 31, 2009 and 2008 was \$66,735 and \$92,626 . There is no expiration date for the credit card.

(5) LONG-TERM DEBT

Long-term debt is comprised of:

	December 31,	
	2009	2008
<p>Note payable to the City of Minneapolis (formerly The Greater Minneapolis Day Care Association). The Association lent Southside \$25,000 on February 1, 2006 in order to fund certain capital expenditures under an agreement that states that \$20,000 of the total amount borrowed will be forgiven ratably through January 2011 as long as Southside provides comparable or expanded services during that period. The agreement allows for a maximum of \$4,000 to be forgiven each year over the term of the contract. Management has no intention of reducing or discontinuing its services and, accordingly, has recorded \$4,000 in 2009 and 2008 to be forgiven as public support. The \$5,000 nonforgiveable portion of the loan was repaid in 2006. The note included provisions for the repayment of the \$5,000 and included interest at a rate of 5%.</p>	\$	9,000
<p>Note payable to Sovereign Bank (secured by vehicles) in monthly installments of \$1,312 including interest at 9.9%. The final payment is due October 2012.</p>	59,358	68,817
<p>Note payable to Associated Bank (secured by building) in monthly installments of \$2,333 including interest at 7.5%. The final payment is due November 2012.</p>	229,818	239,917
	294,176	317,734
Less current maturities	25,239	19,476
	\$ 268,937	\$ 298,258

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SOUTHSIDE FAMILY NURTURING CENTER

NOTES TO FINANCIAL STATEMENTS

(5) LONG-TERM DEBT (continued)

Maturities of long-term debt are as follows during the years ending December 31:

2010	\$	25,239
2011		24,164
2012		244,773

(6) RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets were available for the capital campaign project. The capital campaign project was related to the renovation of Southside's building. The capital campaign was completed during 2008.

(7) OPERATING LEASE COMMITMENT

Southside is obligated under an operating lease for a copier through January 2013. Rent expense under this lease for the years ended December 31, 2009 and 2008 was \$6,129 and \$5,693.

Future minimum lease payments for the above are as follows for the years ending December 31:

2010	\$	6,121
2011		6,121
2012		6,121
2013		<u>510</u>
	<u>\$</u>	<u>18,873</u>

(8) CONCENTRATIONS OF REVENUE SOURCES AND ACCOUNTS RECEIVABLE

During the years ended December 31, 2009 and 2008, major revenue sources were as follows:

	<u>2009</u>	<u>2008</u>
Hennepin County - program services	54%	56%
United Way - contributions	21%	16%

Accounts receivable from Hennepin County represents 100% of total accounts receivable at December 31, 2009 and 2008.

SOUTHSIDE FAMILY NURTURING CENTER

NOTES TO FINANCIAL STATEMENTS

(9) HEALTHY FAMILY PROGRAMS

The Healthy Family Program's goals are purely early intervention and prevention, the work intends to engage with first time families only, to both establish and support the development of a strong attachment with parent and children and to facilitate the development of parenting skills that will enhance their child's growth and development. This early intervention is designed to fully prepare and support new families in acquiring the skills and resources they need to maintain family stability and health.

(10) SUBSEQUENT EVENTS

In accordance with SFAS No. 165 "Subsequent Events", the Company has evaluated those events and transactions that occurred from January 1, 2010 through June 18, 2010, the date of issuance of these financial statements. The program service fee revenue from Hennepin County is under contract through September 2010. At such time, the Company will be forced to seek alternative funding for its programs and adjust its services to conform to the available budget. No other material events or transactions have occurred during this period which would render these financial statements to be misleading.

(11) FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements* (FASB Statement No. 157), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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SOUTHSIDE FAMILY NURTURING CENTER

NOTES TO FINANCIAL STATEMENTS

(11) FAIR VALUE MEASUREMENTS (continued)

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

Cash and cash equivalents - The carrying amounts reported in the balance sheet approximates fair value because of the short maturities of those instruments.

Accounts receivable - The carry amount reported in the balance sheet approximates fair value because of the short maturity of the receivables.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash	\$ 61,311	\$ -	\$ -	\$ 61,311
Accounts receivable	118,424	-	-	118,424
Total assets at fair value	<u>\$ 179,735</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 179,735</u>