



NORTH AMERICAN FAMILY INSTITUTE, INC.

Financial Statements and Schedules and
Reports as Required by Rules of the
Florida General Auditor, Chapter 10.650

June 30, 2010

(With Independent Auditors' Report Thereon)

NORTH AMERICAN FAMILY INSTITUTE, INC.

Financial Statements and Schedules and
Reports as Required by Rules of the
Florida General Auditor, Chapter 10.650

Year ended June 30, 2010

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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Exhibit I

Independent Auditors' Report

The Board of Directors
North American Family Institute, Inc.:

We have audited the accompanying consolidated statement of financial position of North American Family Institute, Inc. and subsidiaries (NAFI) as of June 30, 2010, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of NAFI's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NAFI as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2010 on our consideration of NAFI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in the accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by Chapter 10.650, *Rules of the Auditor General*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

September 30, 2010

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Consolidated Statement of Financial Position

June 30, 2010

Assets

Current assets:	
Cash and equivalents	\$ 5,420,381
Restricted cash (note 5)	216,582
Accounts receivable, net (note 2)	8,543,222
Prepaid expenses and other current assets	442,904
Total current assets	<u>14,623,089</u>
Property and equipment (note 5 and 7):	
Land	3,594,743
Construction in progress	228,300
Buildings and improvements	28,016,310
Equipment and furnishings	3,995,811
Motor vehicles	1,433,053
	<u>37,268,217</u>
Less accumulated depreciation	<u>(14,961,307)</u>
Property and equipment, net	<u>22,306,910</u>
Investments (note 4)	631,567
Other assets (note 5)	2,248,631
Total assets	<u>\$ 39,810,197</u>

Liabilities and Net Assets

Current liabilities:	
Current portion of long-term debt and capital leases (note 5 and 7)	\$ 718,423
Accounts payable	758,311
Line of credit (note 3)	2,175,000
Accrued payroll and related liabilities	3,201,753
Other accrued expenses	942,170
Deferred revenue (note 10)	4,019,745
Total current liabilities	<u>11,815,402</u>
Long-term liabilities:	
Long-term debt and capital leases, net of current portion (note 5 and 7)	<u>12,554,927</u>
Total long-term liabilities	<u>12,554,927</u>
Total liabilities	<u>24,370,329</u>
Net assets:	
Unrestricted	15,235,836
Temporarily restricted	204,032
Total net assets	<u>15,439,868</u>
Total liabilities and net assets	<u>\$ 39,810,197</u>

See accompanying notes to consolidated financial statements.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Consolidated Statement of Activities

Year ended June 30, 2010

Changes in unrestricted net assets:	
Revenues and other support:	
Contracts, net	\$ 88,216,271
Contributions:	
In-kind	1,984,487
Capital assets	730,000
Other	236,896
Interest and dividends	12,853
Miscellaneous	287,518
	<u>91,468,025</u>
Net assets released from program restrictions	<u>69,440</u>
Total revenues and other support	<u>91,537,465</u>
Expenses:	
Program services	80,739,608
Supporting services	10,095,361
Total expenses	<u>90,834,969</u>
Increase in unrestricted net assets before investment activities and loss on sale of property and equipment	702,496
Net realized and unrealized gain on investments	31,986
Unrealized loss on interest rate swap (note 5)	(74,679)
Loss on sale of property and equipment	(2,994)
Increase in unrestricted net assets	<u>656,809</u>
Changes in temporarily restricted net assets:	
Contributions	52,844
Net assets released from program restrictions	(69,440)
Decrease in temporarily restricted net assets	<u>(16,596)</u>
Increase in net assets	640,213
Net assets at beginning of year	<u>14,799,655</u>
Net assets at end of year	<u>\$ 15,439,868</u>

See accompanying notes to consolidated financial statements.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Consolidated Statement of Functional Expenses

Year ended June 30, 2010

	<u>Program services</u>	<u>Supporting services</u>	<u>Total</u>
Personnel expenses:			
Salaries	\$ 45,452,704	5,744,127	51,196,831
Payroll taxes and employee benefits	<u>12,898,727</u>	<u>1,573,816</u>	<u>14,472,543</u>
	<u>58,351,431</u>	<u>7,317,943</u>	<u>65,669,374</u>
Other expenses:			
Contracted services	5,443,790	1,069,082	6,512,872
Occupancy	3,914,421	568,267	4,482,688
Consumables	3,432,913	—	3,432,913
Other direct expenses	2,488,661	602,972	3,091,633
In-kind	1,983,562	925	1,984,487
Transportation	1,626,638	170,133	1,796,771
Equipment	633,688	119,910	753,598
Interest	<u>690,060</u>	<u>46,012</u>	<u>736,072</u>
	20,213,733	2,577,301	22,791,034
Depreciation and amortization	<u>2,174,444</u>	<u>200,117</u>	<u>2,374,561</u>
Total expenses	<u>\$ 80,739,608</u>	<u>10,095,361</u>	<u>90,834,969</u>

See accompanying notes to consolidated financial statements.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Consolidated Statement of Cash Flows

Year ended June 30, 2010

Cash flows from operating activities:	
Decrease in net assets	\$ 640,213
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	2,374,561
Loss on sale of property and equipment	2,994
Contribution of capital assets	(730,000)
Net realized and unrealized gain on investments	(31,986)
Unrealized loss on interest rate swap	74,679
Changes in assets and liabilities:	
Accounts receivable, net	1,647,050
Prepaid expenses and other current assets	364,445
Other assets	(527,587)
Accounts payable	(53,022)
Accrued payroll and related liabilities	(47,070)
Other accrued expenses	93,327
Deferred revenue	(1,181,243)
Net cash provided by operating activities	<u>2,626,361</u>
Cash flows from investing activities:	
Purchases of property and equipment	(1,551,210)
Purchases of investments	(12,851)
Proceeds from sale of property and equipment	5,530
Proceeds from sale of investments	9,951
Net cash used by investing activities	<u>(1,548,580)</u>
Cash flows from financing activities:	
Issuance of long-term debt	679,788
Repayments of long-term debt	(723,023)
Advances from line of credit	8,349,200
Repayments of line of credit	(7,965,200)
Net cash provided by financing activities	<u>340,765</u>
Net increase in cash and equivalents	1,418,546
Cash and equivalents at beginning of year	<u>4,218,417</u>
Cash and equivalents at end of year	<u>\$ 5,636,963</u>
Supplemental data:	
Cash paid for interest	\$ 761,995

See accompanying notes to consolidated financial statements.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The accompanying financial statements include the activities and balances of North American Family Institute, Inc. and its subsidiaries, including NAFI Connecticut, Inc. (NAFICT), NFI Massachusetts, Inc. (NFI), NFI North, Inc. (NFIN), and NFI Vermont, Inc. (NFIV) (collectively NAFI). NAFI is a not-for-profit organization whose purpose is to provide community-based social services to individuals and their families. NAFI's revenues are derived primarily from services contracted with the states of Connecticut, Florida, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, Vermont, and Virginia; the federal government; and certain commercial payers.

(a) Basis of Presentation

All intercompany transactions and balances have been eliminated in consolidation.

The accompanying consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on NAFI as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of NAFI and/or the passage of time.

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions and/or time restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets. Expirations of temporary restrictions occur when donor-imposed stipulated purposes have been accomplished and/or the stipulated time period has elapsed. If an expense is incurred for a purpose for which both unrestricted and temporarily restricted net assets are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred unless the expense is for a purpose that is directly attributable to another specified external source of revenue.

On April 30, 2010, NAFI deconsolidated The Captive Advantage, LLC (TCA) entity in accordance with FASB Accounting Standards Codification (ASC) Topic 810-10, *Consolidation*, as NAFI no longer has a majority voting interest directly or indirectly. As a result, NAFI eliminated approximately \$600,000 of accumulated deficit of net assets.

(b) Revenue Recognition

Under cost reimbursement contracts, revenues are recognized as expenses are incurred. Under units-of-service contracts, revenues are recognized when services are provided.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
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Notes to Consolidated Financial Statements

June 30, 2010

(c) *Income Taxes*

NAFI is an organization described under Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally exempt from income taxes under IRC Section 501(a). NAFI has taken no significant uncertain tax positions.

(d) *Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The current economic environment increases the uncertainty of those estimates.

NAFI considers the estimates of its allowance for contractual adjustments and doubtful accounts receivable and of its self insured health plan to be critical accounting policies requiring extensive subjective judgments. NAFI bases its estimates on historical experience, and on industry averages, industry experience and other assumptions believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

(e) *Concentration of Risk*

NAFI receives the majority of its funding from state and federal contracts that are renewable annually. Legislative budgets could significantly impact NAFI's ability to start new programs and to continue existing programs.

(f) *Cash Equivalents*

All short-term investments with an original maturity at purchase of three months or less are considered cash equivalents for purposes of the statement of cash flows.

(g) *Property and Equipment*

Property and equipment are recorded at cost or, in the case of donated property, at fair value at the date of gift. Depreciation is provided using the straight-line method over the following estimated useful lives:

Buildings and improvements	15 – 33.3 years
Equipment and furnishings	2 – 10 years
Motor vehicles	3 – 5 years

Leasehold improvements are depreciated or amortized according to the Agency's normal depreciation policy except that the time period shall be the shorter of: 1) the useful life of the leasehold improvements, or 2) the remaining years of the lease. The remaining years of the lease include the years in the lease renewals that are reasonably assured.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
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Notes to Consolidated Financial Statements

June 30, 2010

(h) Self-Insurance

NAFI is self-insured for employee medical healthcare costs. At June 30, 2010, the estimated liability for health care claims incurred but not yet reported or paid was \$530,559 and is included in accrued payroll and related liabilities in the accompanying statement of financial position.

(i) In-Kind Contributions

In-kind contributions are generally recognized at fair value on the date received. During fiscal 2010, NAFI received in-kind contributions of rent, services, equipment and furnishings, and consumables amounting to \$1,984,487. In addition, NAFI received an in-kind contribution of capitalized property amounting to \$730,000, consisting of 4 buildings to be used for programs and related services and was recorded at its fair value.

(j) Fair Value of Financial Instruments

Fair value is the price that NAFI would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 – quoted prices in active markets for identical investments.
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.).
- Level 3 – significant unobservable inputs (including NAFI's own assumptions in determining the fair value of investments).

(k) Subsequent Events

NAFI has evaluated events subsequent to June 30, 2010 and through September 30, 2010. NAFI has determined there are no material events that would require recognition or disclosure in this report through this date.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
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Notes to Consolidated Financial Statements

June 30, 2010

(2) Accounts Receivable

Accounts receivable of \$8,543,222 is carried net of allowances for estimated contractual adjustments and doubtful accounts receivable of \$390,242. Contract revenues of \$88,216,271 in 2010 have been decreased by estimated contractual adjustments and doubtful accounts of \$133,741.

(3) Line of Credit

NAFI makes available to its subsidiaries, including NAFICT, NFIV, NFI and NFIN, an on-demand \$8,000,000 line of credit from TD Bank. The line of credit bears interest at the bank's prime rate plus 0.50% (4.0% at June 30, 2010). Borrowings under the line are jointly guaranteed by NAFI, NAFICT, NFIV, NFI, and NFIN and are collateralized by substantially all of their assets.

Borrowings under the line of credit are due upon demand, and the line is subject to annual renewal. At June 30, 2010, \$2,175,000 was outstanding under this line of credit.

In addition, NAFI has entered into Letter of Credit agreements with TD Bank for the year ended June 30, 2010 for a total of \$4,119,260. The Letter of Credit agreements are carved out of the \$8,000,000 line of credit and are not collateralized with additional cash by NAFI. The Letter of Credit agreements are a requirement of NAFI's workers' compensation carrier.

(4) Investments

Investments at June 30, 2010 consisted of the following:

Equities	\$	297,551
Corporate bonds		136,301
Certificate of deposit		100,000
Government/agency bonds		81,351
Cash and equivalents		15,671
Community provider network		693
		<hr/>
	\$	<u>631,567</u>

All investments are valued using Level 1 inputs in accordance with the fair value hierarchy.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
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Notes to Consolidated Financial Statements

June 30, 2010

(5) Long-Term Debt

Long-term debt at June 30, 2010 consisted of the following:

<u>Interest rate</u>	<u>Fiscal year due</u>	<u>Amount</u>
Bond payable, 0.295% variable	2027	\$ 2,350,000
Bond payable, 4.375% fixed, bond series 2002A	2017	610,000
Tax-exempt bonds, 5.91%	2017	609,889
Bond payable, 4.510% fixed	2023	1,492,623
Bond payable, 3.750% – 4.700% Series 2006A bonds variable 2007 -2024	2024	982,955
Total bonds payable		<u>6,045,467</u>
Mortgages payable, secured by real estate:		
6.000% fixed	2013	165,423
8.000% fixed	2013	27,919
6.080% fixed	2014	441,340
4.250% variable	2015	274,854
5.000% fixed	2015	269,573
4.510% fixed	2015	49,666
6.430% fixed	2018	571,559
6.310% fixed	2018	330,452
2.000% fixed	2022	118,466
5.125% fixed	2024	222,608
7.570% variable	2026	1,025,644
7.020% variable	2026	193,158
8.500% fixed	2026	145,325
7.000% variable	2026	96,900
0.000% fixed*	2027	160,000
8.000% fixed	2027	53,842
0.000% fixed*	2028	160,000
8.000% fixed	2028	52,987
8.000% fixed	2030	259,664
7.000% fixed	2030	157,470
7.000% fixed	2030	146,697
0.000% fixed*	2030	125,000
0.000% fixed*	2030	116,767
6.625% variable	2031	361,119
7.000% fixed	2031	361,115
4.750% variable	2031	167,644
0.000% fixed*	2031	100,000
7.080% variable	2032	539,383
0.000% fixed**	2034	75,000
Total mortgages payable		<u>6,769,575</u>

**NORTH AMERICAN FAMILY INSTITUTE, INC.
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Notes to Consolidated Financial Statements

June 30, 2010

<u>Interest rate</u>	<u>Fiscal year due</u>	<u>Amount</u>
Vehicle notes, secured by automobiles:		
0.000% fixed	2011	\$ 4,928
0.000% fixed	2011	4,928
8.990% fixed	2011	4,739
8.290% fixed	2011	3,474
0.000% fixed	2011	1,841
0.000% fixed	2011	1,840
2.900% fixed	2011	1,779
7.250% fixed	2012	12,534
7.250% fixed	2012	11,362
7.990% fixed	2012	7,840
7.990% fixed	2012	7,488
3.900% fixed	2012	6,261
3.900% fixed	2013	7,106
3.900% fixed	2013	6,267
3.900% fixed	2013	5,605
3.900% fixed	2013	5,512
3.900% fixed	2013	4,585
7.500% fixed	2014	18,925
8.244% fixed	2014	14,260
Total vehicle notes		<u>131,274</u>
Total long-term debt		<u>12,946,316</u>
Less current portion		<u>(706,948)</u>
Total long-term debt, net of current portion		<u>\$ 12,239,368</u>

* Certain mortgages payable to housing authorities and the North Shore Home Consortium provide that a portion of the principal will be forgiven at the end of the loan period if the underlying properties are used to provide housing in accordance with stipulated conditions. In addition, certain mortgages payable contain various prepayment penalties.

** Mortgage payable to North Shore Home Consortium provides that the principal will be forgiven at the end of the loan period if the underlying properties are to be used to provide housing in accordance with stipulated conditions.

On February 14, 2002, NFIN issued New Hampshire Health and Education Facilities Authority Revenue Bonds, Series 2002 in the amount of \$1,088,000 at a fixed rate of 5.91%. The bonds were issued for the purpose of financing construction projects and refinancing outstanding debt. The bonds are fully secured by certain property owned by NFIN. The bonds include a debt covenant which states that NFIN must maintain for each fiscal year a debt service coverage ratio of not less than 1.20 to 1.00, which is defined as the ratio of income plus interest, depreciation, and other noncash items to principal due on demand plus interest expense. At June 30, 2010, NFIN was in compliance with the debt covenant. Bond issuance costs

**NORTH AMERICAN FAMILY INSTITUTE, INC.
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June 30, 2010

of \$39,407 are being amortized over the term of the bonds and are included net of amortization of \$22,331 in other assets in the accompanying consolidated statement of financial position.

On May 2, 2003 NFI entered into a bond agreement with TD Bank, N.A. for \$2,000,000 at a fixed interest rate of 4.510%. The bond was acquired for the purpose of financing projects and refinancing outstanding debt. The bond is guaranteed by North American Family Institute, Inc.

On June 21, 2007, NFI entered into a bond agreement with Deutsche Bank Trust Company Americas for \$2,600,000 at a variable interest rate. At the same time, NFI entered into an interest rate swap agreement with TD Bank, N.A. to fix the interest rate at 4.320% for the 10 year life of the bond. The fair value of the instrument was a liability of \$313,741 as of June 30, 2010 and is included in other accrued expenses. This swap is considered a Level 2 input in accordance with the fair value hierarchy. The bond was acquired for the purpose of financing projects and paying off two existing mortgages totaling \$1,142,558. The bond is guaranteed by North American Family Institute, Inc. Bond issuance costs of \$99,336 are being amortized over the term of the bonds and are included net of amortization of \$33,184 in other assets in the accompanying consolidated statement of financial position.

On June 15, 2003, NFIV entered into a bond agreement with Chittenden Trust Company for \$1,000,000. The bond agreement consisted of two series: Bond Series 2002A for \$935,000 at a fixed rate of 4.375% for 15 years and Bond Series 2002B for \$65,000 at an adjustable rate starting at 4.750% for 2 years, which was paid in full as of June 30, 2005. Bond issuance costs of \$92,500 are being amortized over the term of the bonds and are included net of amortization of \$46,250 in other assets in the accompanying consolidated statement of financial position.

On September 13, 2006, NFIV entered into a bond agreement with the Vermont Educational and Health Buildings Financing Agency. The total debt of \$1,025,000 is comprised of two revenue bond series. The first series is a tax-exempt offering of \$995,000 Series 2006A revenue bonds issued by the Developmental and Mental Health Acquisitions Pool with maturities beginning in 2010 and ending in 2024 with interest rates ranging between 3.75% and 4.70%. The second series is a taxable offering of \$30,000 Series 2006B revenue bonds issued by the Developmental and Mental Health Acquisitions Pool with maturities beginning in 2007 and ending in 2010 with a fixed interest rate of 5.80%. Bond issuance costs of \$101,223 are being amortized over the term of the bonds and are included net of amortization of \$23,619 in other assets in the accompanying consolidated statement of financial position.

NAFI and its subsidiaries are in compliance with all of their debt covenants.

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Notes to Consolidated Financial Statements

June 30, 2010

Scheduled repayments of long-term debt are as follows:

	<u>Amount due</u>
Year ending June 30:	
2011	\$ 706,948
2012	723,412
2013	729,298
2014	1,134,778
2015	920,648
Thereafter	<u>8,731,232</u>
	<u>\$ 12,946,316</u>

Interest expense was \$736,072 for the year ended June 30, 2010.

(6) Operating Leases

NAFI leases certain property, motor vehicles, and equipment under noncancelable (except under certain circumstances) operating lease arrangements. Rental and lease expense amounted to \$2,735,205 for the year ended June 30, 2010. Future minimum lease payments as of June 30, 2010 are as follows:

	<u>Amount due</u>
Year ending June 30:	
2011	\$ 1,957,395
2012	1,575,144
2013	1,340,550
2014	929,841
2015	570,245
Thereafter	<u>1,136,299</u>
	<u>\$ 7,509,474</u>

NORTH AMERICAN FAMILY INSTITUTE, INC.
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Notes to Consolidated Financial Statements

June 30, 2010

(7) Capital Leases

NAFI leases certain property under a capital lease arrangement. Future minimum lease payments under the capital lease as of June 30, 2010 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total due</u>
Year ending June 30:			
2011	\$ 11,475	7,198	18,673
2012	11,475	7,198	18,673
2013	11,475	7,198	18,673
2014	11,475	7,198	18,673
2015	11,475	7,198	18,673
Thereafter	<u>269,659</u>	<u>169,152</u>	<u>438,811</u>
	327,034	<u>205,142</u>	<u>532,176</u>
Less current portion	<u>(11,475)</u>		
	<u>\$ 315,559</u>		

(8) Retirement Plan

NAFI has a qualified defined contribution retirement plan for eligible employees to which annual contributions are made at the discretion of NAFI's board of directors. NAFI elected not to make a contribution for the year ended June 30, 2010.

(9) Collaborative Agreement

NFIV participates in a collaborative agreement with two unrelated organizations to operate the Centerpoint Adolescent Treatment Services program. The agreement among the three parties established the collaborative through June 30, 2010, with an option for renewal. The agreement contains a provision that states "nine months before the end of the agreement, discussions shall begin for negotiation of a continuation agreement." This agreement provides for cost and revenue sharing above certain pre-defined thresholds. Revenue generated from this collaborative for the year ended June 30, 2010 by NFIV was \$1,341,999, which was included in contract revenue in the statement of activities. Expenses incurred by NFIV for the collaborative were \$1,207,107 for the year ended June 30, 2010, and are included in program expenses in the statement of activities.

(10) Contingencies

Through June 30, 2010, NAFI had received a total of \$6,703,492 in bonding grants from the State of Connecticut for improvements to five properties. With these grants NAFI is required to set up liens against the five properties and maintain its operations for 10 years in these locations. If NAFI is not in compliance with these and other restrictions, the State of Connecticut has the ability to request repayment of the funds on a percentage basis. Revenue from these grants will be recognized over a 10-year period with the unrecognized portion of \$2,873,588 included in deferred revenue in the accompanying statement of financial position as of June 30, 2010.

**NORTH AMERICAN FAMILY INSTITUTE, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2010

(11) Matching Funds

Pursuant to Federal Regulations, Title 42, Chapter 4, Part 433, Sections 433.50 and 433.51, revised October 1, 2008, NFIV received funds from state/local government sources during fiscal year 2010 which provide a basis for state and local units of government to participate in financing the nonfederal portion of medical assistance expenditures. These funds exceed the matching funds minimum requirement amount of \$825,335, as determined by the State of Vermont Department of Mental Health.

NORTH AMERICAN FAMILY INSTITUTE, INC.
(Excluding Subsidiaries)

Schedule of Expenditures of State Financial Assistance

Year ended June 30, 2010

<u>Program title</u>	<u>CFDA/CSFA number</u>	<u>State contract/grant number</u>	<u>Total expenditures</u>
State financial assistance:			
Florida Department of Juvenile Justice:			
Monticello New Life		R2004	\$ 1,853,487
Alachua Academy		R2068	704,053
Total Florida Department of Juvenile Justice			<u>2,557,540</u>
U.S. Department of Agriculture/Florida Department of Children and Families/ Noncash Assistance/Food Stamps:			
Monticello New Life		Auth. #6226019	22,104
Total Food Stamps			<u>22,104</u>
Florida Education Finance Program:			
School Board of Alachua County Alachua Academy		School Board Agreement 11/1/09-6/30/10	54,942
Total School Board of Alachua County			<u>54,942</u>
Florida in-kind contributions*		N/A	480,495
Total expenditures of state financial assistance			<u>\$ 3,115,081</u>

* In-kind contributions consist of rental space of 8,612 square feet for the Alachua Academy
13,800 square feet for the Monticello New Life program.

See accompanying notes to schedule of expenditures of state financial assistance.

NORTH AMERICAN FAMILY INSTITUTE, INC.

Notes to Schedule of Expenditures of State Financial Assistance

Year ended June 30, 2010

(1) Definition of Reporting Entity

Basis of Presentation

The accompanying schedule of expenditures of state financial assistance presents expenditures of all financial assistance from the State of Florida.

(2) Significant Accounting Policy

The accompanying schedule is presented using the accrual basis of accounting.



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Exhibit II

**Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit Performed in
Accordance with *Government Auditing Standards***

The Board of Directors
North American Family Institute, Inc.:

We have audited the consolidated financial statements of North American Family Institute, Inc. (NAFI), as of and for the year ended June 30, 2010, and have issued our report thereon dated September 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered NAFI's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of NAFI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NAFI's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NAFI's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Exhibit II

This report is intended solely for the information and use of the board of directors, management and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 30, 2010



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Boston, MA 02111

Exhibit III

Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with State Financial Assistance Projects

The Board of Directors
North American Family Institute, Inc.:

Compliance

We have audited the compliance of North American Family Institute, Inc. (NAFI) with the types of compliance requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement* that could have a direct and material effect on each of its major state financial assistance projects for the year ended June 30, 2010. NAFI's major state financial assistance projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs (Exhibit IV). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major state financial assistance projects is the responsibility of NAFI's management. Our responsibility is to express an opinion on NAFI's compliance based on our audits.

We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, *Rules of the Auditor General*. Those standards and Chapter 10.650, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state financial assistance project occurred. An audit includes examining, on a test basis, evidence about NAFI's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on NAFI's compliance with those requirements.

In our opinion, NAFI complied, in all material respects, with the requirements referred to above that are applicable to its major state financial assistance projects for the year ended June 30, 2010.

Internal Control over Compliance

The management of NAFI is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered NAFI's internal control over compliance with the requirements that could have a direct and material effect on a major state financial assistance project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with Chapter 10.650, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NAFI's internal control over compliance.

Exhibit III

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors, management, pass-through entities, and the State of Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 30, 2010

NORTH AMERICAN FAMILY INSTITUTE, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

(1) Summary of Auditors' Results

- (a) An unqualified opinion was issued on the consolidated financial statements.
- (b) No material weaknesses in internal control were disclosed by the audit.
- (c) No significant deficiencies in internal control were disclosed by the audit.
- (d) No instance of noncompliance considered material to the financial statements was disclosed by the audit.
- (e) An unqualified opinion was issued on compliance for the major state financial assistance projects.
- (f) No material weaknesses in internal control over compliance with requirements applicable to major programs were identified.
- (g) No significant deficiencies in internal control over major programs were identified.
- (h) There were no audit findings relative to the major state financial assistance projects.
- (i) Major state financial assistance projects:

Monticello New Life
Alachua Academy

**CFDA/CSFA/
state contract/
grant number**

R2004
R2068

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

(3) Findings and Questioned Costs Relating to State Financial Assistance Projects

None.

(4) Prior Year Findings and Questioned Costs

None.



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Exhibit V

Management Letter

The Board of Directors
North American Family Institute, Inc.:

We have audited the consolidated financial statements of North American Family Institute, Inc. and subsidiaries (NAFI) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 30, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We have issued our Auditors' Reports on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit Performed in Accordance with *Government Auditing Standards* and on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with State Financial Assistance Projects, and our Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated October 31, 2010 should be considered in conjunction with this management letter. Additionally, our audit was conducted in accordance with Chapter 10.650, *Rules of the Auditor General*.

The *Rules of the Auditor General* (Section 10.654(1)(d)) require disclosure in the management letter of the following matters if not already addressed in the auditors' report on compliance and internal controls or schedule of findings and questioned costs: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit identified no matters required to be disclosed.

This management letter is intended solely for the information and use of the board of directors, management, and the State of Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 30, 2010