



**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, 2011

(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, 2011

**Table of Contents**

	<b>Page(s)</b>
Independent Auditors' Report	I-1
Consolidated Financial Statements:	
Statement of Financial Position	I-2
Statement of Activities	I-3
Statement of Functional Expenses	I-4
Statement of Cash Flows	I-5
Notes to Consolidated Financial Statements	I-6
<b>Supplementary Information</b>	
Supplemental Schedule of Expenditures of State Financial Assistance	I-15
Notes to Supplemental Schedule of Expenditures of State Financial Assistance	I-16
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit Performed in Accordance with <i>Government Auditing Standards</i>	II-1
Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Project and on Internal Control over Compliance in Accordance with State Financial Assistance Projects	III-1
Schedule of Findings and Questioned Costs	IV-1
Management Letter	V-1



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

**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, 2011, 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, 2011, 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, 2011 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, 2011

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

Consolidated Statement of Financial Position

June 30, 2011

**Assets**

Current assets:	
Cash and equivalents	\$ 6,219,979
Restricted cash (note 5)	220,455
Accounts receivable, net (note 2)	7,070,406
Prepaid expenses and other current assets	709,936
Total current assets	<u>14,220,776</u>
Property and equipment (note 5):	
Buildings and improvements	29,146,174
Land	3,849,259
Equipment and furnishings	4,113,374
Motor vehicles	1,334,823
Construction in progress	45,271
	<u>38,488,901</u>
Less accumulated depreciation	<u>(16,897,685)</u>
Property and equipment, net	21,591,216
Investments (note 4)	706,804
Other assets (note 5)	2,508,782
Total assets	<u>\$ 39,027,578</u>

**Liabilities and Net Assets**

Current liabilities:	
Current portion of long-term debt and capital leases (note 5)	\$ 809,687
Accounts payable	685,075
Line of credit (note 3)	435,000
Accrued payroll and related liabilities	3,233,971
Other accrued expenses	1,483,666
Deferred revenue (note 10)	3,926,746
Total current liabilities	<u>10,574,145</u>
Long-term liabilities:	
Long-term debt and capital leases, net of current portion (note 5)	<u>12,618,447</u>
Total long-term liabilities	<u>12,618,447</u>
Total liabilities	<u>23,192,592</u>
Net assets:	
Unrestricted	15,642,563
Temporarily restricted	192,423
Total net assets	<u>15,834,986</u>
Total liabilities and net assets	<u>\$ 39,027,578</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Activities

June 30, 2011

Changes in unrestricted net assets:	
Revenues and other support:	
Contracts, net (note 2 and 9)	\$ 85,351,062
Contributions:	
In-kind	1,643,214
Other	268,075
Interest and dividends	41,294
Miscellaneous	299,672
	<u>87,603,317</u>
Net assets released from program restrictions	<u>35,850</u>
Total revenues and other support	<u>87,639,167</u>
Expenses:	
Program services (note 9)	78,616,974
Supporting services	8,686,433
Total expenses	<u>87,303,407</u>
Increase in unrestricted net assets before nonoperating activities	335,760
Nonoperating revenues (expenses):	
Other losses	(23)
Net realized and unrealized gain on investments	75,929
Unrealized gain on interest rate swap (note 5)	20,513
Loss on sale of property and equipment	(25,452)
Increase in unrestricted net assets	<u>406,727</u>
Changes in temporarily restricted net assets:	
Contributions	24,241
Net assets released from program restrictions	(35,850)
Decrease in temporarily restricted net assets	<u>(11,609)</u>
Increase in net assets	395,118
Net assets at beginning of year	<u>15,439,868</u>
Net assets at end of year	<u>\$ 15,834,986</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Functional Expenses

June 30, 2011

	<u>Program services</u>	<u>Supporting services</u>	<u>Total</u>
Personnel expenses:			
Salaries, payroll taxes and employee benefits	\$ 56,564,243	6,007,326	62,571,569
Other expenses:			
Contracted services	5,334,302	1,026,991	6,361,293
Occupancy	4,041,170	504,593	4,545,763
Consumables	3,427,107	—	3,427,107
Other direct expenses	2,046,228	571,215	2,617,443
In-kind	1,631,264	11,950	1,643,214
Transportation	1,718,295	206,290	1,924,585
Equipment	956,373	119,959	1,076,332
Interest	686,608	32,114	718,722
	<u>19,841,347</u>	<u>2,473,112</u>	<u>22,314,459</u>
Depreciation and amortization	<u>2,211,384</u>	<u>205,995</u>	<u>2,417,379</u>
Total expenses	<u>\$ 78,616,974</u>	<u>8,686,433</u>	<u>87,303,407</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Cash Flows

June 30, 2011

Cash flows from operating activities:	
Increase in net assets	\$ 395,118
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	2,417,379
Loss on disposal of property and equipment	25,452
Net realized and unrealized gain on investments	(75,929)
Unrealized gain on interest rate swap	(20,513)
Changes in assets and liabilities:	
Accounts receivable, net	1,472,814
Prepaid expenses and other current assets	(267,032)
Other assets	(288,575)
Accounts payable	(74,986)
Accrued payroll and related liabilities	32,218
Other accrued expenses	562,009
Deferred revenue	(92,998)
Net cash provided by operating activities	<u>4,084,957</u>
Cash flows from investing activities:	
Net change in restricted cash	(3,874)
Purchases of property and equipment	(2,028,629)
Purchases of investments	96,068
Proceeds from sale of property and equipment	332,360
Proceeds from sale of investments	(96,069)
Net cash used by investing activities	<u>(1,700,144)</u>
Cash flows from financing activities:	
Issuance of long-term debt	1,238,211
Repayments of long-term debt	(1,083,427)
Advances from line of credit	5,600,000
Repayments of line of credit	(7,340,000)
Net cash used by financing activities	<u>(1,585,216)</u>
Net increase in cash and equivalents	799,597
Cash and equivalents at beginning of year	<u>5,420,382</u>
Cash and equivalents at end of year	<u>\$ 6,219,979</u>
Supplemental data:	
Cash paid for interest	\$ 750,163

See accompanying notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements

June 30, 2011

**(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.

**(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.

**(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.

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

Notes to Consolidated Financial Statements

June 30, 2011

**(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.

**(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. Restricted cash consists of funds reserved in connection with the bonds issuance as described in footnote 5.

**(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 organization'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.

**(h) Self-Insurance**

NAFI is self-insured for employee medical healthcare costs. At June 30, 2011, the estimated liability for healthcare claims incurred but not yet reported or paid was \$428,033 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 2011, NAFI received in-kind contributions of rent, services, equipment and furnishings, and consumables amounting to \$1,643,214.

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

Notes to Consolidated Financial Statements

June 30, 2011

**(j) Fair Value of Financial Instruments**

Fair value is the price that NAFI would receive upon selling a financial instrument 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 financial instruments.
- Level 2 – other significant observable inputs (including quoted prices for similar financial instruments, interest rates, credit risk, etc.).
- Level 3 – significant unobservable inputs (including NAFI's own assumptions in determining the fair value of financial instruments).

**(k) Subsequent Events**

NAFI has evaluated events subsequent to June 30, 2011 and through September 30, 2011, which is the date that the financial statements were available to be issued. NAFI has determined there are no material events that would require recognition or disclosure in this report through this date.

**(2) Accounts Receivable**

Accounts receivable of \$7,070,406 is carried net of allowances for estimated contractual adjustments and doubtful accounts receivable of \$223,539. Contract revenues of \$85,351,062 in 2011 have been decreased by estimated contractual adjustments and doubtful accounts of \$166,348.

**(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 a fluctuating rate per annum equal to the Wall Street Journal Prime Rate, plus 0.50% per annum, (4.0% at June 30, 2011), provided, however, at no time shall the interest rate be less than four percent (4.0%). 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, 2011, \$435,000 was outstanding under this line of credit.

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

Notes to Consolidated Financial Statements

June 30, 2011

In addition, NAFI has entered into Letter of Credit agreements with TD Bank for the year ended June 30, 2011 for a total of \$3,347,673. The Letter of Credit agreements can be utilized by all subsidiaries in the aggregate of \$8,000,000 and are not collateralized with additional cash. The Letter of Credit agreements are a requirement of NAFI's workers' compensation carrier.

**(4) Investments**

Investments are carried at fair value. Investments at June 30, 2011 consisted of the following:

Cash and equivalents	\$	10,463
Corporate bonds		133,437
Certificate of deposit		101,148
Government/agency bonds		79,300
Equities		382,456
	\$	<u>706,804</u>

All investments are valued using Level 1 inputs in accordance with the fair value hierarchy, except corporate bonds that are considered Level 2. There were no transfers between fair value level during the year.

**(5) Long-Term Debt**

Long-term debt at June 30, 2011 consisted of the following:

<u>Interest rate</u>	<u>Fiscal year due</u>	<u>Amount</u>
Bonds payable:		
4.375% fixed	2017	\$ 550,000
5.910% fixed	2017	534,112
4.510% fixed	2023	1,407,815
3.750% – 4.700% variable	2024	952,955
0.128% variable	2027	2,254,000
3.400% fixed	2041	350,783
		<u>6,049,665</u>
Total bonds payable		<u>6,049,665</u>

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

Notes to Consolidated Financial Statements

June 30, 2011

<u>Interest rate</u>	<u>Fiscal year due</u>	<u>Amount</u>
Mortgages payable, secured by real estate:		
6.000% variable	2013	\$ 156,809
8.000% fixed	2013	15,632
5.080% fixed	2014	399,427
4.450% fixed	2015	331,556
6.000% fixed	2015	261,486
4.250% variable	2015	220,465
4.510% fixed	2015	46,054
7.080% variable	2016	521,113
5.250% fixed	2016	293,942
3.840% variable	2016	184,841
5.250% fixed	2016	143,379
6.430% fixed	2018	551,539
6.310% fixed	2018	313,757
2.000% fixed	2022	109,778
5.125% fixed	2024	210,848
7.570% variable	2026	992,729
8.500% fixed	2026	138,212
7.000% variable	2026	92,688
0.000% fixed*	2027	160,000
8.000% fixed	2027	52,289
0.000% fixed*	2028	160,000
8.000% fixed	2028	51,551
8.000% fixed	2030	250,078
7.000% fixed	2030	153,514
7.000% fixed	2030	142,954
0.000% fixed*	2030	125,000
0.000% fixed*	2030	116,767
7.000% fixed	2031	352,721
6.625% variable	2031	351,976
4.750% variable	2031	161,281
0.000% fixed*	2031	100,000
0.000% fixed**	2034	75,000
Total mortgages payable		<u>7,237,386</u>

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

Notes to Consolidated Financial Statements

June 30, 2011

Interest rate	Fiscal year due	Amount
Vehicle notes, secured by automobiles:		
7.250% fixed	2012	\$ 7,773
7.250% fixed	2012	7,060
7.990% fixed	2012	3,885
7.990% fixed	2012	3,532
3.900% fixed	2012	3,319
3.900% fixed	2013	3,764
3.900% fixed	2013	3,318
3.900% fixed	2013	2,969
3.900% fixed	2013	2,922
3.900% fixed	2013	2,431
7.500% fixed	2014	14,383
8.244% fixed	2014	10,791
Total vehicle notes payable		<u>66,147</u>
Equipment note, secured by equipment:		
5.250% fixed	2014	74,936
Total equipment note payable		<u>74,936</u>
Total long-term debt		13,428,134
Less current portion		<u>(809,687)</u>
Total long-term debt, net of current portion		<u>\$ 12,618,447</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 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. Bond issuance costs of \$39,407 are being amortized over the term of the bonds and are included net of amortization of \$24,958 in other assets in the accompanying 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.

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

Notes to Consolidated Financial Statements

June 30, 2011

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 (rate at June 30, 2011 was 0.128%). 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 \$293,228 as of June 30, 2011 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 \$40,378 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 the Bond Series 2002A for \$935,000 at a fixed rate of 4.375% for 15 years. Bond issuance costs of \$92,500 are being amortized over the term of the bonds and are included net of amortization of \$52,416 in other assets in the accompanying statement of financial position.

On September 13, 2006, NFIV entered into a bond agreement with the Vermont Educational and Health Buildings Financing Agency for 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%. Bond issuance costs of \$101,223 are being amortized over the term of the bonds and are included net of amortization of \$30,367 in other assets in the accompanying statement of financial position.

On December 1, 2010 NAFICT entered into a bond agreement with the Connecticut Housing Finance Authority (CHFA) for \$354,211 at a fixed interest rate of 3.40%. The bond was acquired for the purpose of financing property and its renovation projects. The bond is guaranteed by NAFICT. The repayment also includes payments to the CHFA Repair and Replacement Reserve Fund for the purpose of funding capital repairs and replacements in excess of \$2,500 per occurrence. Bond issuance costs of \$7,374 are being amortized over the term of the bond and are included net of amortization of \$123 in other assets in the accompanying statement of financial position.

NAFI is required to maintain certain debt service coverage ratios. NAFI and its subsidiaries are in compliance with all of their debt covenants.

Scheduled repayments of long-term debt are as follows:

	<u>Amount due</u>
Year ending June 30:	
2012	\$ 809,687
2013	955,411
2014	1,065,689
2015	1,302,017
2016	1,097,438
Thereafter	<u>8,197,892</u>
	<u>\$ 13,428,134</u>

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

Notes to Consolidated Financial Statements

June 30, 2011

Interest expense was \$718,722 for the year ended June 30, 2011.

**(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 \$2,461,238 for the year ended June 30, 2011. Future minimum lease payments as of June 30, 2011 are as follows:

	<u>Amount due</u>
Year ending June 30:	
2012	\$ 1,927,875
2013	1,589,343
2014	1,065,992
2015	780,404
2016	482,338
Thereafter	<u>789,150</u>
	<u>\$ 6,635,102</u>

**(7) 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, 2011.

**(8) 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 2011 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 \$518,428, as determined by the State of Vermont Department of Mental Health.

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

Notes to Consolidated Financial Statements

June 30, 2011

**(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.” As there was no agreement as of June 30, 2010, this agreement shall be considered to be continuing for successive one year periods unless otherwise agreed upon or unless the collaborative ceases to exist. There has been no decision to terminate the agreement and negotiations for renewal are currently ongoing. This agreement provides for cost and revenue sharing above certain pre-defined thresholds. Revenue generated from this collaborative for the year ended June 30, 2011 by NFIV was \$386,000, which was included in contract revenue in the statement of activities. Expenses incurred by NFIV for the collaborative were \$1,135,307 for the year ended June 30, 2011 and are included in program expenses in the statement of activities.

**(10) Contingencies**

Through June 30, 2011, NAFI had received a total of \$6,703,492 in bonding grants from the State of Connecticut for improvements to four 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. NAFI is in compliance of all restrictions as of June 30, 2011. Revenue from these grants will be recognized over a 10 year period with the unrecognized portion of \$2,214,450 included in deferred revenue in the accompanying statement of financial position as of June 30, 2011.

**NORTH AMERICAN FAMILY INSTITUTE, INC.**  
(Excluding Subsidiaries)

Supplemental Schedule of Expenditures of State Financial Assistance  
Year ended June 30, 2011

<u>Program title</u>	<u>CSFA</u>	<u>State contract/grant number</u>	<u>State total expenditures</u>
State financial assistance:			
Florida Department of Juvenile Justice:			
Alachua Academy	80.017	R2068	\$ 1,035,904
Monticello New Life	80.017	R2004	<u>650,505</u>
Total Florida Department of Juvenile Justice			<u>1,686,409</u>
U.S. Department of Agriculture/Florida Department of Children and Families/ Noncash Assistance/Food Stamps:			
Monticello New Life		Auth. #6226019	<u>7,948</u>
Total Food Stamps			<u>7,948</u>
Florida Education Finance Program:			
School Board of Alachua County		School Board Agreement	
Alachua Detention Center School		7/1/10-6/30/11	228,138
Alachua Academy		7/1/10-6/30/11	<u>133,386</u>
Total School Board of Alachua County			<u>361,524</u>
Florida in-kind contributions*		N/A	<u>366,382</u>
Total expenditures of state financial assistance			<u>\$ 2,422,263</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 Supplemental Schedule of Expenditures of State Financial Assistance.

**NORTH AMERICAN FAMILY INSTITUTE, INC.**

Notes to Supplemental Schedule of Expenditures of State Financial Assistance

Year ended June 30, 2011

**(1) Summary of Significant Accounting Policies**

The accompanying principles of NAFI conform to U.S. generally accepted accounting principles as applicable to not-for-profit agencies. The following is a summary of the more significant policies relating to NAFI's grant programs.

**(2) Basis of Accounting**

The accompanying financial statements are presented using the accrual basis of accounting. The Supplemental Schedule of Expenditures of State Financial Assistance, contained in this report, is prepared based on regulations established by the State of Florida. There were no prior year findings required to be reported.



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Exhibit II

**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, 2011, and have issued our report thereon dated September 30, 2011. 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**

Management of NAFI is responsible for establishing and maintaining effective 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, 2011



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Exhibit III

**Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Projects 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, 2011. 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. 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, 2011.

**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 state projects. 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, 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

October 27, 2011

**NORTH AMERICAN FAMILY INSTITUTE, INC.**

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

**(1) Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes   x   no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes   x   none reported

Noncompliance material to the financial statements noted? \_\_\_\_\_ yes   x   no

***State Financial Assistance***

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes   x   no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes   x   none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.650, Rules of the Auditor General? \_\_\_\_\_ yes   x   no

***Major State Financial Assistance Projects:***

	<u>CSFA</u>	<u>State contract/ grant number</u>
Monticello New Life	80.017	R2004
Achua Academy	80.017	R2068

The threshold for distinguishing Type A and Type B projects was \$300,000 for major State projects.

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

None reported.

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

None reported.

**NORTH AMERICAN FAMILY INSTITUTE, INC.**

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

**(4) Prior Year Findings and Questioned Costs**

None reported.



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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, 2011, and have issued our report thereon dated September 30, 2011.

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 Independent 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 September 30, 2011 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 that are 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, 2011