# PERSPECTIVES, INC.
St. Louis Park, Minnesota

FINANCIAL STATEMENTS
Including Independent Auditors' Report

December 31, 2010 and 2009

**PERSPECTIVES, INC.**

CONTENTS

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Perspectives, Inc.
St. Louis Park, Minnesota

We have audited the accompanying statements of financial position of Perspectives, Inc. as of December 31, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Perspectives, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the 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 Perspective, Inc.'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 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 Perspectives, Inc. as of December 31, 2010 and 2009, and the respective changes in its net assets, functional expenses and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2011, on our consideration of Perspectives, Inc.'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 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 important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
May 9, 2011

## PERSPECTIVES, INC.

Statements of Financial Position
December 31, 2010 and 2009

| ASSETS | December 31 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| Cash | $ 1,737 | $ 1,171 |
| Receivables | | |
| Grants | 88,768 | 113,584 |
| Contributions | 148,487 | 105,675 |
| Other | 57,355 | 51,496 |
| Prepaid expenses, inventory and other assets | 103,680 | 106,451 |
| Escrows and reserves | 132,185 | 168,285 |
| Endowment investments | 95,637 | 95,649 |
| Property and equipment, net | 5,042,147 | 5,094,174 |
| **Total assets** | $ 5,669,996 | $ 5,736,485 |
| **LIABILITIES AND NET ASSETS** | | |
| **Liabilities** | | |
| Accounts payable | $ 161,492 | $ 94,037 |
| Accrued liabilities | 55,246 | 59,243 |
| Security deposits | 39,767 | 34,303 |
| Deferred revenue | | 15,000 |
| Note payable | 171,077 | 188,918 |
| Long-term debt | 1,175,693 | 1,167,200 |
| Deferred loan agreements | 551,394 | 707,675 |
| Total liabilities | 2,154,669 | 2,266,376 |
| **Net Assets** | | |
| Unrestricted | 717,312 | 576,157 |
| Temporarily restricted | 2,708,015 | 2,803,952 |
| Permanently restricted | 90,000 | 90,000 |
| Total net assets | 3,515,327 | 3,470,109 |
| **Total liabilities and net assets** | $ 5,669,996 | $ 5,736,485 |

See accompanying notes to financial statements.

# PERSPECTIVES, INC.

Statement of Activities
Year Ended December 31, 2010
(with Comparative Totals for 2009)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals 2010 | Totals 2009 |
|---|---|---|---|---|---|
| **Revenues, Gains and Other Support** | | | | | |
| Contributions | | | | | |
| Foundation grants | $ 227,131 | $ 465,511 | $ | $ 692,642 | $ 662,633 |
| Government contracts | | 36,350 | | 36,350 | |
| Individual contributions | 28,177 | 7,635 | | 35,812 | 40,667 |
| United Way and affiliate agencies | 31,614 | 104,000 | | 135,614 | 63,632 |
| Contributed materials and services | 50,921 | 169,958 | | 220,879 | 273,908 |
| Total contributions | 337,843 | 783,454 | | 1,121,297 | 1,040,840 |
| Grants and Fees | | | | | |
| Governmental agencies | 1,537,964 | | | 1,537,964 | 1,175,455 |
| Fundraising event, net of direct expenses | 104,496 | 46,590 | | 151,086 | 170,117 |
| Supportive housing rental income | 94,604 | | | 94,604 | 108,634 |
| Office lease income | 350 | | | 350 | 375 |
| Other program fees | 34,607 | | | 34,607 | 49,765 |
| Total grants and fees | 1,772,021 | 46,590 | | 1,818,611 | 1,504,346 |
| Other | | | | | |
| Investment income | 3,352 | | | 3,352 | 4,532 |
| Loss on disposal of asset | (1,919) | | | (1,919) | (451) |
| Sale of inventory, net of cost of goods sold | 1,021 | | | 1,021 | 1,260 |
| Miscellaneous | 140,200 | | | 140,200 | 20,773 |
| Total other | 142,654 | | | 142,654 | 26,114 |
| Net assets released from restrictions | 951,816 | (951,816) | | | |
| Total revenues, gains, and other support | 3,204,334 | (121,772) | | 3,082,562 | 2,571,300 |
| **Expenses** | | | | | |
| Program services | 2,362,181 | | | 2,362,181 | 2,180,772 |
| Supporting services | 900,998 | | | 900,998 | 764,414 |
| Total expenses | 3,263,179 | | | 3,263,179 | 2,945,186 |
| Operating Change in Net Assets | (58,845) | (121,772) | | (180,617) | (373,886) |
| Debt extinguishment | 200,000 | | | 200,000 | |
| Non-operating contribution | | 25,835 | | 25,835 | 199,841 |
| Total Non-operating | 200,000 | 25,835 | | 225,835 | 199,841 |
| **Change in Net Assets** | 141,155 | (95,937) | | 45,218 | (174,045) |
| **Net Assets** – Beginning of Year | 576,157 | 2,803,952 | 90,000 | 3,470,109 | 3,644,154 |
| **Net Assets** – End of Year | $ 717,312 | $ 2,708,015 | $ 90,000 | $ 3,515,327 | $ 3,470,109 |

See accompanying notes to financial statements.

# PERSPECTIVES, INC.

Statement of Activities
Year Ended December 31, 2009

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2009 |
|---|---|---|---|---|
| **Revenues, Gains and Other Support** | | | | |
| Contributions | | | | |
| Foundation grants | $ 303,350 | $ 359,283 | $ | $ 662,633 |
| Individual contributions | 36,831 | 3,836 | | 40,667 |
| United Way and affiliate agencies | 3,632 | 60,000 | | 63,632 |
| Contributed materials and services | 60,643 | 213,265 | | 273,908 |
| Total contributions | 404,456 | 636,384 | | 1,040,840 |
| Grants and Fees | | | | |
| Governmental agencies | 1,175,455 | | | 1,175,455 |
| Fundraising event, net of direct expenses | 124,874 | 45,243 | | 170,117 |
| Supportive housing rental income | 108,634 | | | 108,634 |
| Office lease income | 375 | | | 375 |
| Other program fees | 49,765 | | | 49,765 |
| Total grants and fees | 1,459,103 | 45,243 | | 1,504,346 |
| Other | | | | |
| Investment income | 4,532 | | | 4,532 |
| Loss on disposal of asset | (451) | | | (451) |
| Sale of inventory, net of cost of goods sold | 1,260 | | | 1,260 |
| Miscellaneous | 20,773 | | | 20,773 |
| Total other | 26,114 | | | 26,114 |
| Net assets released from restrictions | 945,984 | (945,984) | | |
| Total revenues, gains, and other support | 2,835,657 | (264,357) | | 2,571,300 |
| **Expenses** | | | | |
| Program services | 2,180,772 | | | 2,180,772 |
| Supporting services | 764,414 | | | 764,414 |
| Total expenses | 2,945,186 | | | 2,945,186 |
| Operating Change in Net Assets | (109,529) | (264,357) | | (373,886) |
| Non-operating contribution | | 199,841 | | 199,841 |
| **Change in Net Assets** | (109,529) | (64,516) | | (174,045) |
| **Net Assets** – Beginning of Year | 685,686 | 2,868,468 | 90,000 | 3,644,154 |
| **Net Assets** – End of Year | $ 576,157 | $ 2,803,952 | $ 90,000 | $3,470,109 |

See accompanying notes to financial statements.

## PERSPECTIVES, INC.

Statements of Cash Flows
Years Ended December 31, 2010 and 2009

| | | 2010 | | 2009 |
|---|---|---|---|---|
| **Cash Flows From Operating Activities** | | | | |
| Change in net assets | $ | 45,218 | $ | (174,045) |
| Adjustments to reconcile change in net assets to net cash flows from operating activities | | | | |
| Depreciation and amortization | | 191,428 | | 172,161 |
| Amortization of debt present value discount | | 77,798 | | 74,042 |
| Present value discount of new loan | | (25,835) | | (199,841) |
| Loan extinguishment | | (200,000) | | |
| Loss on disposal of asset | | 1,919 | | 451 |
| Contributed assets | | (17,138) | | (42,194) |
| Interest reinvested directly to escrow and endowment | | (1,444) | | (2,237) |
| Contributions received restricted for long-term purposes | | (44,162) | | |
| Change in assets and liabilities | | | | |
| Grants receivable | | 24,816 | | 42,222 |
| Contributions receivable | | (42,812) | | 89,716 |
| Other receivables | | (5,859) | | 27,657 |
| Prepaid expenses, inventories and other assets | | 2,771 | | 65,406 |
| Accounts payable | | 50,153 | | (29,242) |
| Accrued liabilities | | (3,997) | | 6,629 |
| Deferred revenue | | (15,000) | | (21,672) |
| Security deposits | | 5,464 | | 275 |
| Net cash flows from operating activities | | 43,320 | | 9,328 |
| **Cash Flows From Investing Activities** | | | | |
| Proceeds from replacement reserve | | 21,071 | | 30,808 |
| Deposits to replacement reserve | | (33,400) | | (21,000) |
| Capital expenditures | | (56,995) | | (42,048) |
| Net cash flows from investing activities | | (69,324) | | (32,240) |
| **Cash Flows From Financing Activities** | | | | |
| Payments of long-term debt | | (31,033) | | (24,655) |
| Proceeds from long-term debt issued | | 31,282 | | 23,901 |
| Proceeds from note payable | | 1,868,250 | | 1,372,052 |
| Payments of note payable | | (1,886,091) | | (1,347,918) |
| Contributions received restricted for long-term purposes | | 44,162 | | |
| Net cash flows from financing activities | | 26,570 | | 23,380 |
| **Net Increase in Cash** | | 566 | | 468 |
| **Cash** - Beginning of Year | | 1,171 | | 703 |
| **Cash** - End of Year | $ | 1,737 | $ | 1,171 |

See accompanying notes to financial statements.

## PERSPECTIVES, INC.

Statements of Cash Flows (Continued)
Years Ended December 31, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| **Supplemental Cash Flow Information** | | |
| Interest paid | $ 60,944 | $ 54,530 |
| **Supplemental Disclosure of Non-Cash Investing and Financing Activities** | | |
| Contributed assets | $ 17,138 | $ 42,194 |
| Other assets placed in service | 3,796 | 57,096 |
| Interest reinvested directly to escrow & endowment | 1,444 | 2,237 |
| Fixed asset additions in accounts payable | 17,302 | |
| Fixed asset additions paid for with escrow funds | 49,855 | |

See accompanying notes to financial statements.

## NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Nature of Organization*

Perspectives, Inc. (the Organization), is a Minnesota nonprofit corporation. It was incorporated November 3, 1976 and organized as an agency specializing in education on women's issues concerning chemical dependency and has developed into the current mission: *Breaking the Cycle for At Risk Families and Children.* The Organization provides a variety of programs that include a comprehensive supportive housing program for homeless, recovering women and their children, an extended day learning program for at-risk children, supervised visitation for non-custodial parents, and an extensive summer program for homeless and at-risk children.

*Financial Statement Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting. The Organization presents information regarding its financial position and activities according to three classes of net assets - unrestricted, temporarily restricted, and permanently restricted as follows:

***Permanently Restricted Net Assets*** - Net assets subject to donor-imposed stipulations that they be maintained permanently. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes.

***Temporarily Restricted Net Assets*** - Net assets subject to donor-imposed stipulations that will be met by action and/or the passage of time.

***Unrestricted Net Assets*** - Net assets not subject to donor-imposed stipulations.

*Government Grants*

The Organization recognizes program grant contract revenue in the period the related services are performed as specified under the terms of the government contract. Accordingly, advances for future periods are reported as deferred revenues. The Organization generally considers grant contracts with governmental agencies to be exchange transactions.

Combined funding received from the U.S. Department of Housing and Urban Development, Hennepin County and U.S. Department of Human Services represented 72% and 62% of total grants and contributions from government agencies in 2010 and 2009, respectively. Grants receivable are primarily from governmental agencies. The majority of grants receivable at December 31, 2010 and 2009 are from the Minnesota Department of Human Services, U.S. Department of Human Services, Independent School District 283 and Hennepin County. Receivables arising from government grants are recorded at their net realizable value, and generally no collateral is required. The Organization follows a policy of providing an allowance for doubtful accounts; however, based on historical collection experience and the current composition of receivables, the Organization is of the belief that such accounts will be collectible in all material respects and thus an allowance is not necessary. The Organization expects to collect its grants receivable within the next year and interest is generally not reflected. Amounts receivable under governmental contracts would be considered delinquent if the account is more than 90 days past due the original due date and would be written off when such accounts are determined to be uncollectible. There were no delinquent government contracts receivable at December 31, 2010 or 2009.

## NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Contributions*

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions receivable (unconditional promises to give) that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received (approximately 3%). Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

During 2010, the Organization received contributions of approximately $55,000 from a family foundation for which an employee serves as trustee.

### *Description of Services*

Services offered by the Organization's programs are as follows:

Supportive Housing

Transitional Housing
A program for 22 recovering, homeless families and their children. Housing is provided in two 12-unit apartment buildings located at 2760 and 2768 Louisiana Court in St. Louis Park, Minnesota. The target population for this program is women and their children. The program provides a supportive environment and staff to assist all residents in their transition from homelessness to permanent homes for themselves and their children. Stays are limited to 2 years.

Permanent Housing
A program for 30 recovering, homeless families and their children. Housing is provided in a 12-unit apartment building located at 2753 Louisiana Court and two 10-unit apartment buildings at 2759 and 2765 Louisiana Court in St. Louis Park, Minnesota. The target population for this program is women and their children. The program provides a supportive environment and staff to assist all residents in their transition from homelessness to permanent homes for themselves and their children. Stays are not limited.

Clinical Services

Main Street Collaborative
A mental health program launched in October 2009 in partnership with Wayside House. Funded through a five year grant from SAMHSA (Substance Abuse Mental Health Services Administration), Perspectives provides mental health services and Wayside House provides chemical health services to more effectively serve dual-diagnosed women living in both agencies' Supportive Housing Programs.

## NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Description of Services (continued)*

| | |
|---|---|
| Kids Connection | Reach for the Stars<br>A collaboration with the St. Louis Park School District, this program creates a positive academic experience for disadvantaged/homeless students by providing an after-school tutoring program. Licensed teachers provide structured learning plans for the children and supervision of the adult volunteer tutors.<br><br>Kids Cafe<br>A companion program to Reach for the Stars, this program provides the evening meals to the children. Kids Cafe operates 5 days a week and also serves 50-60 children each day. In addition to dinner, the teacher/chef provides mentoring and education around nutrition as well as teaching the children team building. The children actually participate in preparing, serving and in the clean up of every meal. Kids Cafe serves approximately 10,000 meals a year.<br><br>Summer Explorers<br>This educational/recreational program runs throughout the summer and provides extended learning to homeless and at-risk children who lack the academic skills to maintain grade level, and the resources to participate in summer recreation. Over 60 children participate in the program. |
| Child Safety Center | Provides a safe, comfortable and supportive environment for families in need of monitored or supervised parenting time services. Families are typically court ordered. Supervised visits and exchanges are offered seven days a week. |

*Functional Allocation of Expenditures*

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*Accounting Estimates*

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

*Cash Equivalents*

The Organization defines cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. Cash on deposit in excess of federally insured limits are subject to the usual banking risks of funds in excess of those limits.

## NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Property and Equipment*

Property and equipment are recorded at the lower of cost or estimated fair value for purchased items, or the lower of estimated fair value at the date of receipt or current fair value, in the case of donated items. Depreciation is provided by the straight-line method over their estimated useful lives. Expenditures for property and equipment, including major improvements and betterments, are capitalized and depreciated. Normal maintenance and repairs are expensed as incurred. The Organization's policy is to capitalize all physical assets acquired with a unit cost in excess of $3,000, unless otherwise stated by an awarding agency. If physical assets are included in the budget of a grant they are expensed.

*Finance Costs*

The cost of obtaining financing agreements is amortized on the straight-line method over the terms of the respective debt agreements (currently five years).

*Accrued Liabilities*

Accrued liabilities include accrued wages, accrued vacation, asbestos retirement obligation, and accrued interest.

*Income Tax Status*

The Organization has been determined to be exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Service Code and, accordingly, no provision for income taxes has been recorded in the financial statements. However, any unrelated business income may be subject to taxation.

In accordance with the accounting standard on *Accounting for Uncertainty in Income Taxes*, the Organization addresses the determination of whether tax benefits claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merit of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income. There were no unrecognized tax benefits identified or recorded as liabilities during fiscal year 2010. Open tax years subject to examination by the U.S. and state taxing authorities are for the years 2008 to 2010, which statutes expire in 2011 to 2013, respectively.

*Financial Awards from Grantors*

Financial awards from federal, state and local governments in the form of grants are subject to agency audit. Such audits could result in claims against the organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

*Advertising*

Advertising costs are expensed when incurred.

*Reclassifications*

Certain prior year amounts have been reclassified to conform with the December 31, 2010 financial statement presentation. These reclassifications, however, had no effect on total net assets or change in net assets.

## NOTE 2 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at December 31, 2010 and 2009:

| | **2010** | 2009 |
|---|---|---|
| Kids Connection future year operations | $ 122,000 | $ 86,524 |
| Unrestricted operating support, future year operations | 26,487 | 19,151 |
| Totals | $ 148,487 | $ 105,675 |
| Amounts are due in: | | |
| Less than one year | $ 148,487 | $ 105,425 |
| One to five years | | 250 |
| Totals | $ 148,487 | $ 105,675 |

At December 31, 2010 and 2009, approximately 72% and 76% of the contributions receivable was due from two donors.

The Organization follows a policy of providing an allowance for doubtful accounts, but management is of the belief that such accounts are collectable in all material respects and thus an allowance was not necessary at December 31, 2010 or 2009. Present value discounts totaled $0 and $3,770 in 2010 and 2009, respectively.

## NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2010 and 2009:

| | **2010** | 2009 |
|---|---|---|
| Property in Service | | |
| Land | $ 350,000 | $ 350,000 |
| Buildings | 6,014,439 | 5,898,069 |
| Office and apartment furnishings and equipment | 572,722 | 558,325 |
| Bus and vehicles | 49,794 | 49,794 |
| Video development | 74,608 | 74,608 |
| | 7,061,563 | 6,930,796 |
| Accumulated depreciation | 2,019,916 | 1,836,622 |
| Total property in service, net | 5,041,647 | 5,094,174 |
| Property Not Yet in Service | | |
| Construction in progress | 500 | |
| Total property and equipment | $ 5,042,147 | $ 5,094,174 |

Construction in progress at December 31, 2010 relates to a deposit on a roof-top solar panel installation project at Perspectives Family Center. The project includes installation of a new roof, with a total construction budget of $383,200, and will be commenced upon the completion of fundraising efforts. Subsequent to December 31, 2010, the Organization secured $97,200 in energy rebates that are contingent upon the solar panel installation.

## NOTE 4 – ESCROWS AND RESERVES

The escrows and reserves consist of the following at December 31, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Reserves for Replacements | | |
| Reserve held by Wells Fargo | $ 33,399 | $ 21,009 |
| Reserve held by MHFA | 95,206 | 93,811 |
| Total reserve for replacements | 128,605 | 114,820 |
| Apartment rehabilitation escrow funds held by MHFA | 3,580 | 53,465 |
| Total escrows and reserves | $ 132,185 | $ 168,285 |

*Reserves for Replacements*

In 2007, the Organization established a Reserve for Replacements to be used for apartment structural and mechanical repairs and maintenance of the buildings located at 2753, 2759 & 2765, and 2760 & 2768 Louisiana Court. The balance in this reserve was $33,399 and $21,009 at December 31, 2010 and 2009, respectively.

In 1999, the Minnesota Housing Finance Agency (MHFA) established a Reserve for Replacements in connection with the Housing Trust Fund Housing Program loan (see Note 7). The funds are held in escrow by MHFA and interest earned is deposited in escrow. The reserve represents restricted amounts to be used for apartment structural and mechanical repairs and maintenance of the buildings located at 2753, 2760 and 2768 Louisiana Court. Disbursements require the approval of MHFA. The balance in this reserve was $95,206 and $93,811 at December 31, 2010 and 2009, respectively.

*Apartment Rehabilitation Escrow Funds*

The apartment rehabilitation escrows exist under the terms of agreements with the Minnesota Housing Finance Agency and Hennepin County Redevelopment Authority. The escrows are held independently by the Minnesota Housing Finance Agency and agency approval is required for disbursements. This escrow is held for the payment of project costs related to the rehabilitation of the apartment buildings at 2753, 2759 and 2765 Louisiana Court, which were substantially completed in 2009. The escrow balance was $3,580 and $53,465 at December 31, 2010 and 2009, respectively.

## NOTE 5 – ENDOWMENT

The Organization has a donor-restricted endowment fund, the Jane Onan Endowment, totaling $90,000 created by gifts from the Onan Foundation in honor of Perspectives' founding board member Jane Onan. The fair value of investments in the Jane Onan Endowment is $95,637 and $95,649 at December 31, 2010 and 2009, respectively. The donor stipulated that the fund be invested in federally insured instruments and that interest income be utilized as designated by the Board of Directors. Endowment interest income is classified as unrestricted funds.

## NOTE 6 – NOTE PAYABLE TO BANK

The Organization has available a demand line of credit totaling $300,000 with a bank to be used as needed for working capital purposes. At December 31, 2010 and 2009, the outstanding borrowings were $171,077 and $188,918, respectively. The line of credit matures May 31, 2011. Interest is payable at the bank's prime interest rate plus .5%, subject to a 5.1% floor, which totaled 5.1% at December 31, 2010. Interest payable in 2009 was subject to the bank's prime interest rate plus 2%, which totaled 5.25% at December 31, 2009. Outstanding borrowings under this agreement are secured by a subordinated position on the office building. The demand line of credit is subject to a credit agreement with the bank, which requires the Organization maintains certain financial ratios.

## NOTE 7 – LONG-TERM DEBT

Included in long-term debt are debts which are payable at the end of their term but at no interest rate. The indebtedness was discounted to reflect the market interest rate and present value of the debt. The effective interest rate at the date of the loan was used to discount the debt.

The following schedule of debt reflects the face and current values of the outstanding loans at December 31, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Minnesota Housing Finance Agency (MHFA) Preservation of Affordable Redevelopment Incentive Fund (PARIF) Deferred Loan, face value of $562,680, non-interest bearing, payable in full upon maturity, December 15, 2038. The note is secured by the apartment buildings at 2753, 2759 and 2765 Louisiana Court and subordinated to existing loans and covenant agreements with HUD, MHFA, Hennepin County HOME and the Marquette Bank/Federal Home Loan Bank (see Note 9). | $ 109,509 | $ 98,072 |
| Note payable to the Family Housing Fund (FHF), face value of $150,000, entered into in 2001, non-interest bearing, lump-sum payment of principal due December, 2031. The note is secured by apartment buildings at 2759 and 2765 Louisiana Court and subordinated to the MHFA 2001 HTF loan. | 58,152 | 53,350 |
| Mortgage payable to Hennepin County – Home Investment Partnerships Program (HOME) Loan, face value of $335,000, entered into in 2001, represents loan funds passed through from the U.S. Department of Housing and Urban Development, non-interest bearing, lump-sum payment of principal due December 2031. The mortgage is secured by the apartment building at 2759 and 2765 Louisiana Court and subordinated to the MHFA 2001 HTF loan, the FHF 2001 loan and the AHIF 2001 loan. | 98,542 | 92,964 |
| Mortgage payable to Hennepin County – Home Investment Partnerships Program (HOME) Loan, face value of $275,000, entered into in 1994, represents loan funds passed through from the U.S. Department of Housing and Urban Development, non-interest bearing, lump-sum payment of principal due December 2024. The mortgage is secured by the apartment building at 2753 Louisiana Court and subordinated to the MHFA 1999 HTF loan. | 94,234 | 87,253 |
| Totals carried forward | $ 360,437 | $ 331,639 |

## NOTE 7 – LONG-TERM DEBT (continued)

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Totals brought forward | $ | 360,437 | $ | 331,639 |
| Mortgage payable to Hennepin County – Home Investment Partnerships Program (HOME) Loan, face value of $100,000, entered into in 1999, represents loan funds passed through from the U.S. Department of Housing and Urban Development, non-interest bearing, lump-sum payment of principal due October 2029. The mortgage is secured by the apartment building at 2760 and 2768 Louisiana Court and subordinated to the HUD ESG Program Declaration of Restrictive Covenants, the 1999 FHF loan and the MHFA 1999 HTF loan. | | 27,965 | | 26,136 |
| Note payable to the Minneapolis/St. Paul Family Housing Fund, face value of $150,000, payable in installments equal to fiscal year cash flow if certain contracts are executed. For the years ended December 31, 2010 and 2009, no installments were required. Non-interest bearing, principal is due upon maturity at December 31, 2021. The note is secured by the apartment buildings at 2760 and 2768 Louisiana Court and subordinated to the HUD ESG Program Declaration of Restrictive Covenants, the MHFA 1999 HTF loan, the Hennepin County 1999 HOME loan, the MHFA 1999 HTFT loan, and the Marquette Bank/Federal Home Loan Bank grant agreement (see Note 9). | | 44,124 | | 41,627 |
| Minnesota Housing Finance Agency (MHFA) Housing Trust Fund Deferred Loan, face value of $200,000, non-interest bearing, payable in full upon maturity, December 31, 2021. The note is secured by the apartment buildings at 2760 and 2768 Louisiana Court and subordinated to the HUD ESG Declaration of Restrictive Covenants, MHFA 1999 HTF loan, the Hennepin County HOME 1994 loan, the MHFA 1999 HTFT loan, and the Marquette Bank/Federal Home Loan Bank grant agreement (see Note 9). | | 77,537 | | 71,134 |
| Mortgage payable to bank, secured by office building, due in monthly installments of $6,317 including interest at 6.65%, with a balloon payment of $596,780 due February 2013, subject to the common credit agreement, which includes certain financial covenants. | | 662,620 | | 692,639 |
| Totals carried forward | $ | 1,172,683 | $ | 1,163,175 |

## NOTE 7 – LONG-TERM DEBT (continued)

| | 2010 | 2009 |
|---|---|---|
| Totals brought forward | $ 1,172,683 | $ 1,163,175 |
| Special assessment payable to City of St. Louis Park, due in bi-annual installments based on interest rate of 7.15%, final payment due October 2013. | 1,321 | 1,765 |
| Special assessment payable to City of St. Louis Park, due in bi-annual installments based on interest rate of 7.15%, final payment due October 2013. | 1,689 | 2,260 |
| Total long-term debt | $ 1,175,693 | $ 1,167,200 |

Scheduled maturities of long-term debt are as follows:

| | |
|---|---|
| 2011 | $ 35,291 |
| 2012 | 37,571 |
| 2013 | 592,768 |
| Later years | 510,063 |
| Total long-term debt | $ 1,175,693 |

Long-term debt interest charged to expense was $62,861 and $78,046 for the years ended December 31, 2010 and 2009, respectively, of which $34,080 and $31,621 relates to non-interest bearing loans.

The MHFA, Family Housing Fund and Hennepin County loans have various default provisions, restricting both the use of the properties for low-income housing and the income of residents at program entry.

## NOTE 8 – DEFERRED LOAN AGREEMENTS

Included in deferred loan agreements are debts which become forgiven if certain restrictions on the use of the monies and the related assets are met. The debt proceeds are restricted for the use of low-income housing. The indebtedness was discounted to reflect the market interest rate and present value of the debt. The effective interest rate at the date of the loan was used to discount the debt. As a provision of the loan agreements the face value of the debt will be required to be repaid if the Organization defaults on the debt covenants, which include, but are not limited to certain program usage requirements. The Organization was in compliance with all covenants as of December 31, 2010.

The following schedule of debt reflects the face and current values of the outstanding loans at December 31, 2010 and 2009:

| | **2010** | 2009 |
|---|---|---|
| Mortgage payable to Hennepin County Redevelopment Authority – Affordable Housing Investment Fund Program (AHIF) Loan, face value of $260,000, entered into in 2009, non-interest bearing, forgivable at maturity in March 2039. The mortgage is secured by the apartment buildings at 2760 and 2768 Louisiana Court and subordinated to MHFA, Hennepin County HOME, and Family Housing Fund loans. | $ 65,521 | $ 62,401 |
| Minnesota Housing Finance Agency (MHFA) Housing Trust Fund Housing (HTF) Program Deferred Loan, face value of $203,875, entered into in 2001, non-interest bearing, forgivable December 2022 if specified buildings are operated as low-income housing in accordance with mortgage agreement; if default occurs within 10 years from commencement, the entire principal is due; if default occurs after 10 years but prior to 21 years, entire principal less 5% for each full year after the first 10 years is due on demand. The note is secured by apartment buildings at 2759 and 2765 Louisiana Court. | 101,335 | 95,599 |
| Mortgage payable to Hennepin County Redevelopment Authority – Affordable Housing Investment Fund Program (AHIF) Loan, face value of $450,000, entered into in 2001, non-interest bearing, forgivable at maturity of December 2031. The mortgage is secured by the apartment building at 2759 and 2765 Louisiana Court and subordinated to the MHFA 2001 HTF loan and the 2001 FHF Loan. | 132,371 | 124,878 |
| Mortgage payable to Cities of St. Louis Park and Edina – Community Development Block Grant program (CDBG) Loan, face value of $100,474, represents loan funds passed through from the U.S. Department of Housing and Urban Development, entered into in 2001, non-interest bearing, forgivable at maturity of December 2031. The mortgage is secured by the apartment building at 2759 and 2765 Louisiana Court and subordinated to the MHFA 2001 HTF loan, the FHF 2001 Loan, the AHIF 2001 Loan, and the HOME 2001 loan. | 29,556 | 27,883 |
| Totals carried forward | $ 328,783 | $ 310,761 |

**NOTE 8 – DEFERRED LOAN AGREEMENTS** (continued)

| | 2010 | 2009 |
|---|---|---|
| Totals brought forward | $ 328,783 | $ 310,761 |
| Minnesota Housing Finance Agency (MHFA) Housing Trust Fund Housing (HTF) Program Deferred Loan, face value of $156,000, entered into in 1999, non-interest bearing, forgivable October 2019 if specified buildings are operated as low-income housing in accordance with mortgage agreement; if default occurs within 10 years from commencement, the entire principal is due; if default occurs after 10 years but prior to 30 years, entire principal less 5% for each full year after the first 10 years is due on demand. The note is secured by apartment buildings at 2753, 2760 and 2768 Louisiana Court and subordinated on the 2760 and 2768 apartment buildings to the U.S. Department of Housing and Urban Development (HUD) Emergency Shelter Grants (ESG) Program Declaration of Restrictive Covenants. | 85,817 | 80,203 |
| Note payable to the Family Housing Fund (FHF), face value of $200,000, entered into in 1999, represents loan funds passed through from the U.S. Department of Housing and Urban Development, non-interest bearing. Extinguished at maturity, September 2010. The note is secured by apartment buildings at 2760 and 2768 Louisiana Court and subordinated to the HUD ESG Program Declaration of Restrictive Covenants and the MHFA 1999 HTF loan. | | 189,034 |
| Minnesota Housing Finance Agency (MHFA) Transitional Housing Program Deferred Loan, face value of $10,000, non-interest bearing, forgivable January, 2018 if specified building is operated as transitional housing in accordance with the mortgage agreement; if default on terms of mortgage agreement, principal due on demand. This note is secured by apartment building at 2753 Louisiana Court and subordinated to mortgages payable to Hennepin County and Minnesota Housing Finance Agency, and the Marquette Bank/Federal Home Loan Bank grant agreement (see Note 9). | 6,192 | 5,787 |
| Totals carried forward | $ 420,792 | $ 585,785 |

**NOTE 8 – DEFERRED LOAN AGREEMENTS** (continued)

| | 2010 | 2009 |
|---|---|---|
| Totals brought forward | $ 420,792 | $ 585,785 |
| Minnesota Housing Finance Agency (MHFA) Housing Trust Fund Transitional (HTFT) Housing Program Deferred Loan, face value of $144,000, entered into in 1999, non-interest bearing, forgivable October 2019 if specified buildings are operated as low-income housing in accordance with mortgage agreement; if default occurs within 10 years from commencement, the entire principal is due; if default occurs after 10 years but prior to 30 years, entire principal less 5% for each full year after the first 10 years is due on demand. The note is secured by apartment buildings at 2753, 2760 and 2768 Louisiana Court and subordinated to the HUD ESG Program Declaration of Restrictive Covenants, the MHFA 1999 HTF loan, the FHF 1999 loan and the Hennepin County 1994, 1999, and 2001 HOME loans. | 79,214 | 74,032 |
| Minnesota Housing Finance Agency (MHFA) Housing Trust Fund (HTF) Housing Program Deferred Loan, face value of $100,000, entered into in 1994, non-interest bearing, forgivable December 2024 if specified building is operated as low-income housing in accordance with mortgage agreement; if default occurs within 10 years from commencement, the entire principal is due; if default occurs after 10 years but prior to 30 years, entire principal less 5% for each full year after the first 10 years is due on demand. Note is secured by the apartment building at 2753 Louisiana Court and subordinated to the MHFA 1999 HTF loan, the Hennepin County 1994 HOME loan, the MHFA 1999 HTFT loan and the Marquette Bank/Federal Home Loan Bank grant agreement (see Note 9). | 35,610 | 32,973 |
| Minnesota Housing Finance Agency (MHFA) Housing Trust Fund Housing (HTF) Program Deferred Loan, face value of $33,000, entered into in 2002, non-interest bearing, forgivable August 2023 if specified buildings are operated as low-income housing in accordance with mortgage agreement; if default occurs within 10 years from commencement, the entire principal is due; if default occurs after 10 years but prior to 20 years, entire principal less 10% for each full year after the first 10 years is due on demand. The note is secured by apartment buildings at 2759 and 2765 Louisiana Court. | 15,778 | 14,885 |
| Total deferred loan agreements | $ 551,394 | $ 707,675 |

Interest charged to expense for deferred loan agreements was $43,720 and $42,421 for the years ended December 31, 2010 and 2009, respectively.

## NOTE 9 – COMMITMENTS AND RESTRICTIONS

### U.S. Department of Housing and Urban Development

Transitional Housing

The acquisition and rehabilitation in 1992 of the Organization's two transitional housing program apartment buildings (2760 & 2768 Louisiana Court) was funded in part by a $299,620 grant contribution from the U.S. Department of Housing and Urban Development (HUD). As a restriction of this HUD grant, the Organization must ensure the operation of the transitional housing program in the apartment buildings for a twenty year period. If the transitional housing program were to be terminated by the Organization prior to the required number of years of operation, certain amounts of the funds would need to be returned to HUD, based on the terms specified in the agreement. HUD maintains a secured interest in the apartment buildings.

Permanent Housing

The acquisition and rehabilitation in 2001 of two of the Organization's permanent housing program apartment buildings (2759 & 2765 Louisiana Court) was funded in part by a $400,000 grant contribution from HUD in 2002. As a restriction of this HUD grant, the Organization must ensure the operation of the permanent housing program in the apartment buildings for twenty years. If the permanent housing program were to be terminated by the Organization prior to the required number of years of operation, certain amounts of the funds would need to be returned to HUD, based on the terms specified in the agreement. HUD maintains a secured interest in the apartment buildings.

### Marquette Bank/Federal Home Loan Bank Affordable Housing Program

The substantial apartment renovation project to 2753, 2760 and 2768 Louisiana Court, completed in 2001, was funded in part by a $280,241 grant contribution from Marquette Bank through the Federal Home Loan Bank Affordable Housing Program. As a restriction of the grant, the Organization must ensure the leasing of 33 apartments to families who meet the income guidelines established by the United States Department of Housing and Urban Development for at least a fifteen year period. If the housing program were to be terminated prior to the expiration of the commitment, all or a portion of the grant proceeds would need to be returned. Marquette Bank maintains a secured interest in the apartment buildings.

## NOTE 10 – RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

Permanently restricted net assets consist of the following at December 31, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Endowment funds | $ 90,000 | $ 90,000 |

Temporarily restricted net assets are available for the following purposes at December 31, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Supportive Housing program | $ 75,257 | $ 95,354 |
| Kids Connection program | 146,156 | 123,668 |
| Capital campaign | 2,550 | |
| Unrestricted future year operating support | 20,750 | 16,000 |
| Time restriction and low income housing usage | 2,463,302 | 2,568,930 |
| Totals | $ 2,708,015 | $ 2,803,952 |

## NOTE 11 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors as follows for the years ended December 31, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Satisfaction of program restrictions | | |
| Supportive Housing | $ 242,771 | $ 310,187 |
| Parenting Time | 83,295 | 103,601 |
| Kids Connection | 425,548 | 359,053 |
| | 751,614 | 772,841 |
| Satisfaction of time restrictions | 15,250 | 5,000 |
| Satisfaction of time and low income housing usage | 131,463 | 127,705 |
| Satisfaction of property and equipment acquisitions | 53,489 | 40,438 |
| Total net assets released from restrictions | $ 951,816 | $ 945,984 |

## NOTE 12 – CONTRIBUTED MATERIALS AND SERVICES

The Organization receives donated materials primarily for its Supportive Housing, Kids Connection, and Kids Cafe programs. The Organization received pro-bono attorney, consulting and various other professional services in support of a variety of its programs and other administrative services. The value of donated materials and services included in the financial statements and corresponding expenses for the years ended December 31, 2010 and 2009 are as follows:

| | 2010 | 2009 |
|---|---|---|
| Public support – contributed materials and services | | |
| Volunteer services | $ 42,438 | $ 66,145 |
| Donated professional fees | 25,923 | 23,963 |
| Donated program materials | 152,518 | 183,800 |
| | 220,879 | 273,908 |
| Contributed assets placed in service | 3,796 | 57,095 |
| Totals | $ 224,675 | $ 331,003 |
| Assets | | |
| Inventories | $ | $ 1,756 |
| Office and apartment furnishings and equipment | 17,138 | 40,438 |
| | 17,138 | 42,194 |
| Expenses | | |
| Contributed services | 42,438 | 66,145 |
| Professional fees | 25,923 | 23,963 |
| Donated materials | 139,176 | 198,701 |
| Total expenses | 207,537 | 288,809 |
| Totals | $ 224,675 | $ 331,003 |