

**PERSPECTIVES, INC.**

St. Louis Park, Minnesota

FINANCIAL STATEMENTS  
Including Independent Auditors' Report

December 31, 2010 and 2009

# PERSPECTIVES, INC.

## CONTENTS

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statements of Financial Position	2
Statements of Activities	3 - 4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7 - 8
Notes to Financial Statements	9 - 23
<b>Compliance and Internal Controls</b>	
Schedule of Expenditures of Federal Awards	24 - 25
Notes to Schedule of Expenditures of Federal Awards	26
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27 - 28
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	29 - 30
Schedule of Findings and Questioned Costs	31
Summary Schedule of Prior Audit Findings	32

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.

  
Minneapolis, Minnesota  
May 9, 2011

**PERSPECTIVES, INC.**

Statements of Financial Position  
December 31, 2010 and 2009

<b>ASSETS</b>	December 31	
	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
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	<u>5,042,147</u>	<u>5,094,174</u>
<b>Total assets</b>	<b><u>\$ 5,669,996</u></b>	<b><u>\$ 5,736,485</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Liabilities</b>		
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	<u>551,394</u>	<u>707,675</u>
Total liabilities	<u>2,154,669</u>	<u>2,266,376</u>
<b>Net Assets</b>		
Unrestricted	717,312	576,157
Temporarily restricted	2,708,015	2,803,952
Permanently restricted	<u>90,000</u>	<u>90,000</u>
Total net assets	<u>3,515,327</u>	<u>3,470,109</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 5,669,996</u></b>	<b><u>\$ 5,736,485</u></b>

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
<b>Revenues, Gains and Other Support</b>					
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
<b>Expenses</b>					
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
<b>Change in Net Assets</b>	141,155	(95,937)		45,218	(174,045)
<b>Net Assets – Beginning of Year</b>	576,157	2,803,952	90,000	3,470,109	3,644,154
<b>Net Assets – End of Year</b>	<u>\$ 717,312</u>	<u>\$ 2,708,015</u>	<u>\$ 90,000</u>	<u>\$ 3,515,327</u>	<u>\$ 3,470,109</u>

See accompanying notes to financial statements.

**PERSPECTIVES, INC.**

Statement of Activities  
Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2009
<b>Revenues, Gains and Other Support</b>				
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	<u>60,643</u>	<u>213,265</u>		<u>273,908</u>
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	<u>49,765</u>			<u>49,765</u>
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	<u>20,773</u>			<u>20,773</u>
Total other	26,114			26,114
Net assets released from restrictions	<u>945,984</u>	<u>(945,984)</u>		
Total revenues, gains, and other support	<u>2,835,657</u>	<u>(264,357)</u>		<u>2,571,300</u>
<b>Expenses</b>				
Program services	2,180,772			2,180,772
Supporting services	<u>764,414</u>			<u>764,414</u>
Total expenses	<u>2,945,186</u>			<u>2,945,186</u>
Operating Change in Net Assets	(109,529)	(264,357)		(373,886)
Non-operating contribution		<u>199,841</u>		<u>199,841</u>
<b>Change in Net Assets</b>	(109,529)	(64,516)		(174,045)
<b>Net Assets – Beginning of Year</b>	<u>685,686</u>	<u>2,868,468</u>	<u>90,000</u>	<u>3,644,154</u>
<b>Net Assets – End of Year</b>	<u>\$ 576,157</u>	<u>\$ 2,803,952</u>	<u>\$ 90,000</u>	<u>\$ 3,470,109</u>

See accompanying notes to financial statements.

**PERSPECTIVES, INC.**

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

	2010	2009
<b>Cash Flows From Operating Activities</b>		
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	<u>43,320</u>	<u>9,328</u>
<b>Cash Flows From Investing Activities</b>		
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	<u>(69,324)</u>	<u>(32,240)</u>
<b>Cash Flows From Financing Activities</b>		
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	<u>26,570</u>	<u>23,380</u>
<b>Net Increase in Cash</b>	566	468
<b>Cash - Beginning of Year</b>	<u>1,171</u>	<u>703</u>
<b>Cash - End of Year</b>	<u>\$ 1,737</u>	<u>\$ 1,171</u>

See accompanying notes to financial statements.

**PERSPECTIVES, INC.**

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

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	<b>2010</b>	2009
<b>Supplemental Cash Flow Information</b>		
Interest paid	<u>\$ 60,944</u>	<u>\$ 54,530</u>
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>		
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.



## PERSPECTIVES, INC.

Notes to Financial Statements  
December 31, 2010 and 2009

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

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#### 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.

# PERSPECTIVES, INC.

Notes to Financial Statements  
December 31, 2010 and 2009

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

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### 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.

## PERSPECTIVES, INC.

Notes to Financial Statements  
December 31, 2010 and 2009

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

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#### Description of Services (continued)

##### Kids Connection

##### Reach for the Stars

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.

##### Kids Cafe

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.

##### Summer Explorers

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.

# PERSPECTIVES, INC.

Notes to Financial Statements  
December 31, 2010 and 2009

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

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### 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.

## PERSPECTIVES, INC.

Notes to Financial Statements  
December 31, 2010 and 2009

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### NOTE 2 – CONTRIBUTIONS RECEIVABLE

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

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

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.

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### NOTE 3 – PROPERTY AND EQUIPMENT

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

	<u>2010</u>	<u>2009</u>
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	<u>74,608</u>	<u>74,608</u>
	7,061,563	6,930,796
Accumulated depreciation	<u>2,019,916</u>	<u>1,836,622</u>
Total property in service, net	5,041,647	5,094,174
Property Not Yet in Service		
Construction in progress	<u>500</u>	
Total property and equipment	<u>\$ 5,042,147</u>	<u>\$ 5,094,174</u>

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.

## PERSPECTIVES, INC.

Notes to Financial Statements  
December 31, 2010 and 2009

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### NOTE 4 – ESCROWS AND RESERVES

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

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

#### 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.

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### NOTE 5 – ENDOWMENT

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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.

**PERSPECTIVES, INC.**

Notes to Financial Statements  
December 31, 2010 and 2009

**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

**PERSPECTIVES, INC.**

Notes to Financial Statements  
December 31, 2010 and 2009

**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
	662,620	692,639
Totals carried forward	\$ 1,172,683	\$ 1,163,175



**PERSPECTIVES, INC.**

Notes to Financial Statements  
December 31, 2010 and 2009

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

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	<u>2010</u>	<u>2009</u>
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.	<u>1,689</u>	<u>2,260</u>
Total long-term debt	<u>\$ 1,175,693</u>	<u>\$ 1,167,200</u>

Scheduled maturities of long-term debt are as follows:

2011	\$ 35,291
2012	37,571
2013	592,768
Later years	<u>510,063</u>
Total long-term debt	<u>\$ 1,175,693</u>

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.

**PERSPECTIVES, INC.**

Notes to Financial Statements  
December 31, 2010 and 2009

**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:

	<b>2010</b>	<b>2009</b>
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

**PERSPECTIVES, INC.**

Notes to Financial Statements  
December 31, 2010 and 2009

**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

PERSPECTIVES, INC.

Notes to Financial Statements  
December 31, 2010 and 2009

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

	<u>2010</u>	<u>2009</u>
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.	<u>15,778</u>	<u>14,885</u>
Total deferred loan agreements	<u>\$ 551,394</u>	<u>\$ 707,675</u>

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

# PERSPECTIVES, INC.

Notes to Financial Statements  
December 31, 2010 and 2009

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## NOTE 9 – COMMITMENTS AND RESTRICTIONS

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### 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.

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

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

	<u>2010</u>	<u>2009</u>
Endowment funds	\$ 90,000	\$ 90,000

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

	<u>2010</u>	<u>2009</u>
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	<u>\$ 2,708,015</u>	<u>\$ 2,803,952</u>

**PERSPECTIVES, INC.**

Notes to Financial Statements  
December 31, 2010 and 2009

**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:

	<b>2010</b>	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
	198,202	172,143
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:

	<b>2010</b>	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	\$ 17,138	\$ 1,756
Office and apartment furnishings and equipment	17,138	40,438
	34,276	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