



Financial Statements
December 31, 2010 and 2009

Family Life Services

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Independent Auditor's Report

The Board of Directors
Family Life Services, Inc.
West Fargo, North Dakota

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the Company's internal control over financial reporting. Accordingly, we do not express such an 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 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 Family Life Services, Inc. as of December 31, 2010 and 2009, and the results of operations, cash flows, and functional expenses for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
May 10, 2011

Family Life Services
Statements of Financial Position
December 31, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 266,746	\$ 389,918
Certificate of deposits	110,407	25,000
Interest receivable	1,454	1,407
Accounts receivable	8,205	5,550
Inventory	8,154	-
Prepaid expenses	27,488	11,879
Total current assets	422,454	433,754
Investments	362,119	337,183
Property and Equipment	269,254	282,770
Less accumulated depreciation	173,633	228,343
	95,621	54,427
	\$ 880,194	\$ 825,364
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 26,214	\$ 54,301
Accrued liabilities	97,428	69,022
Current portion - deferred compensation	50,000	50,000
Total current liabilities	173,642	173,323
Deferred Compensation (Note 5)	100,202	80,381
Net Assets		
Unrestricted		
Available for general activities	594,214	559,524
Board designated for Education (Note 1)	12,136	12,136
	606,350	571,660
	\$ 880,194	\$ 825,364

Family Life Services
 Statements of Activities
 Years Ended December 31, 2010 and 2009

	2010	2009
Support and Revenue		
Counseling fees	\$ 930,570	\$ 1,114,784
Grant income	348,654	424,036
Investment and interest income (loss), net	35,258	40,654
Homebuyers educational income	450	3,522
Other income	8,617	15,400
Thrift store revenues of \$109,714, net of expenses of \$172,456	(62,742)	-
	1,260,807	1,598,396
Expenses		
Management and general expenses	116,778	71,598
Credit counseling	1,067,849	1,247,216
Charitable contributions	41,490	37,063
	1,226,117	1,355,877
Change in Net Assets	34,690	242,519
Net Assets, Beginning of Year	571,660	329,141
Net Assets, End of Year	\$ 606,350	\$ 571,660

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

	2010	2009
Operating Activities		
Change in net assets	\$ 34,690	\$ 242,519
Adjustments to reconcile changes in net assets to cash from operating activities		
Depreciation	22,422	20,597
Unrealized gain on investments	(48,004)	(30,068)
Realized loss on investments	24,476	-
Deferred compensation	64,817	64,817
Changes in assets and liabilities		
Interest receivable	(47)	(417)
Accounts receivable	(2,655)	4,031
Inventory	(8,154)	-
Prepaid expenses	(15,609)	(1,349)
Accounts payable	(28,087)	28,060
Accrued liabilities	28,406	3,446
Net Cash from Operating Activities	72,255	331,636
Investing Activities		
Purchases of equipment	(63,616)	(39,658)
Purchase of investments	(123,553)	(21,259)
Proceeds on sale of investments	122,145	25,000
Purchase of certificates of deposit	(85,407)	(25,000)
Payments made on deferred compensation	(44,996)	(51,483)
Net Cash used for Investing Activities	(195,427)	(112,400)
Net Change in Cash and Equivalents	(123,172)	219,236
Cash and Cash Equivalents, Beginning of Year	389,918	170,682
Cash and Cash Equivalents, End of Year	\$ 266,746	\$ 389,918

Family Life Services
Statement of Functional Expenses
Year Ended December 31, 2010

	Credit Counseling	Management & General	Total
Salaries and Wages	\$ 530,685	\$ 60,762	\$ 591,447
Employee Benefits	129,753	27,698	157,451
Counseling Fees	50,384	-	50,384
Website Updates and Maintenance	44,020	-	44,020
Rent	37,495	4,305	41,800
Postage	35,386	4,063	39,449
Repairs and Maintenance	34,435	3,954	38,389
Payroll Taxes	33,354	2,612	35,966
Professional Fees	33,207	3,813	37,020
Office Supplies and Printing	20,133	2,312	22,445
Bank Fees	19,034	-	19,034
Telephone	14,291	1,641	15,932
Depreciation	14,219	1,633	15,852
Travel, Meetings, and Training	13,605	1,562	15,167
Advertising	10,951	-	10,951
Insurance	10,640	1,221	11,861
Client Expenses	8,884	-	8,884
Licenses and Permits	8,564	-	8,564
Education Materials	6,767	-	6,767
Other	5,656	650	6,306
Utilities	4,453	511	4,964
Home Buyers and Client Education	1,574	-	1,574
Accreditation Costs	359	41	400
	<u>\$ 1,067,849</u>	<u>\$ 116,778</u>	<u>\$ 1,184,627</u>

Family Life Services
Statement of Functional Expenses
Year Ended December 31, 2009

	<u>Credit Counseling</u>	<u>Management & General</u>	<u>Total</u>
Salaries and Wages	\$ 562,243	\$ 38,756	\$ 600,999
Counseling Fees	138,305	-	138,305
Employee Benefits	122,488	10,599	133,087
Repairs and Maintenance	54,704	3,928	58,632
Postage	43,076	3,093	46,169
Rent	41,351	2,969	44,320
Payroll Taxes	36,688	2,635	39,323
Website Updates and Maintenance	34,400	-	34,400
Office Supplies and Printing	30,677	2,203	32,880
Advertising	32,047	-	32,047
Professional Fees	29,354	2,108	31,462
Depreciation	19,155	1,442	20,597
Travel, Meetings and Training	19,050	1,368	20,418
Bank Fees	19,944	-	19,944
Telephone	15,761	1,132	16,893
Licenses and Permits	10,043	-	10,043
Client Expenses	7,688	-	7,688
Education Materials	5,994	-	5,994
Accreditation Costs	5,414	388	5,802
Insurance	5,229	375	5,604
Utilities	4,914	353	5,267
Home Buyers and Client Education	5,234	-	5,234
Other	3,457	249	3,706
	<u>\$ 1,247,216</u>	<u>\$ 71,598</u>	<u>\$ 1,318,814</u>

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Family Life Services, Inc. (Organization) was organized as a non-profit corporation under the laws of the state of North Dakota on March 28, 1989, as an organization to provide credit counseling services to individuals. The Organization is supported primarily by fees for credit counseling services. On March 8, 2010, the Organization opened The Family Life Thrift Store to provide quality merchandise at affordable prices in support of local Christian ministries and education.

Basis of Accounting

The financial statements of Family Life Services, Inc. have been prepared on the accrual basis. The significant accounting policies followed by the Organization are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in ASC 958, *Not-for Profit Entities*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Concentrations of Credit Risk

The Organization maintains cash and cash equivalent balances at a financial institution. The accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$250,000.

Cash and Cash equivalents

The Organization considers highly liquid debt investments and certificates of deposits purchased with a maturity of three months or less to be cash equivalents.

Accounting Estimates

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

Property and Equipment

Property and equipment are stated at cost. Additions, renewals, and betterments are capitalized, whereas expenditures for maintenance and repairs are charged to expense. Depreciation of property and equipment is computed on the straight-line method over estimated useful lives of 2-10 years.

Receivable and Credit Policy

Receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days for the invoice date. The receivables are non-interest bearing. Payments on trade receivables are applied to the earliest unpaid invoices. The carrying amount of the receivables is reduced by an amount that reflects management's best estimate of the amounts that will not be collected.

Inventory

The inventory as of December 31, 2010 totaling \$8,154 is the product for sale at the Family Life Thrift Store. The inventory consists of donated items to the thrift store. The inventory cost of \$8,154 is based on the costs to prepare the product for sale at the thrift store. These preparation costs include the costs of staff time to sort, assemble, clean, and transport from the warehouse facility to the retail store. Inventory costs also include expenses for warehouse and storage rents, warehouse utilities, and insurance costs.

Investments

Investments in bonds and notes and mutual funds are recorded at fair value. Investments in certificates of deposits are recorded at cost plus accrued interest. In accordance with the policy of stating investments at fair value, net unrealized appreciation or depreciation for the year is included in investment income (loss) reflected in the statement of activities. Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as current assets. Certificates of deposit with remaining maturities greater than one year are classified as long term and included in investments.

Certain states require the Organization to purchase certificates of deposits in order to do business in those states. The certificates are held as bonds to protect the Organization's clients.

Fair Value Measurements

The Organization has reported certain assets at fair value. See Note 3.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques must maximize the use of observable inputs and minimize the use of unobservable inputs. A fair value hierarchy prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

Designation of Unrestricted Net Assets

The Board of Directors has designated a portion of net assets to be used for future client credit education.

Advertising Costs

The Organization expenses advertising costs as incurred. Advertising expense totaled \$15,891 and \$32,047 for the years ended December 31, 2010 and 2009, respectively.

Income Taxes

Family Life Services, Inc. is organized as a North Dakota nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code 501 (c)(3). The Organization undergoes an annual analysis of its various tax positions, assessing the likelihood of these positions being upheld upon examination with relevant tax authorities, as defined by the accounting principles generally accepted in the United States of America. The Organization believes that it is compliant with all IRS regulations and as of December 31, 2010 and 2009 has not recorded a tax liability for a tax uncertainty

The Organization will recognize future accrued interest and penalties related to unrecognized tax liabilities in income tax if incurred. The Organization is no longer subject to federal and state tax examinations by tax authorities for years before 2007.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement report format. These reclassifications have no effect on the change in net assets, or total net assets as of December 31, 2009.

Subsequent Events

The Organization has evaluated subsequent events through May 10, 2011, the date which the financial statements were available to be issued.

Note 2 - Investments

The following presents the value of investments as of December 31, 2010 and 2009:

	2010	2009
Investments at Fair Value as determined by quoted market price		
Bonds and notes	\$ 26,781	\$ 26,820
Mutual funds	254,695	223,942
Investments Recorded at Cost		
Certificates of deposits	80,643	86,421
	\$ 362,119	\$ 337,183

Certificates of deposit are recorded at cost plus accrued interest.

The following schedule summarizes the investment return and the classification in the statements of activities for the years ended December 31, 2010 and 2009

	2010	2009
Interest and Dividends	\$ 11,730	\$ 10,586
Net Realized Gain (Loss)	(24,476)	-
Unrealized Gain (Loss)	48,004	30,068
Investment income (loss)	\$ 35,258	\$ 40,654

Note 3 - Fair Value Measurements

The related fair values of assets measured on a recurring basis at December 31, 2010 and 2009 are as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<u>December 31, 2010</u>			
U.S. Government Bonds	\$ 26,781	\$ -	\$ -
Mutual funds			
Fixed income	7,857	-	-
Growth	6,378	-	-
World	202,088	-	-
Utilities	29,641	-	-
Real estate	8,731	-	-
Total assets	\$ 281,476	\$ -	\$ -
<u>December 31, 2009</u>			
U.S. Government Bonds	\$ 26,820	\$ -	\$ -
Mutual Funds			
Fixed income	40,096	-	-
Growth	63,444	-	-
World	97,622	-	-
Utilities	15,900	-	-
Real estate	6,880	-	-
Total assets	\$ 250,762	\$ -	\$ -

The fair value of bonds and notes and mutual funds is determined by reference to quoted market prices.

Note 4 - Property and Equipment

	2010	2009
Cost		
Furniture	\$ 18,234	\$ 18,234
Credit counseling software	41,690	41,690
Leasehold improvements	12,018	-
Equipment	197,312	222,846
	269,254	282,770
Less: Accumulated depreciation	173,633	228,343
	\$ 95,621	\$ 54,427

Note 5 - Deferred Compensation

During 2007, the Organization entered into two deferred compensation plans for its key employees. One agreement calls for monthly payments of \$1,200 increased by \$300 per month for each year worked after age 66; however total retirement benefits shall not exceed \$216,000. The second agreement calls for monthly payments of \$1,000 increased by \$200 per month for each year worked after the age of 60; however total retirement benefits shall not exceed \$216,000. The agreements call for a 3 percent annual cost of living increase. The value of the deferred compensation liability is being accrued over the expected remaining term of employment with a total estimated liability based on the average life expectancy of the key employees. The Organization's deferred compensation expense totaled \$64,817 for the years ending December 31, 2010 and 2009. The plans are not currently funded but are expected to be paid using the Organization's investment account. In 2010 and 2009, total payments made under the plan were \$44,996 and \$51,483, respectively.

Long-term deferred compensation payments for the following years are expected to be:

Year Ending December 31,	Amount
2011	\$ 50,000
2012	50,000
2013	50,202
	\$ 150,202

Note 6 - Operating Lease

The Organization leases office space for the credit counseling services on a five year lease, effective August 8, 2010. The lease is \$3,600 per month expiring in October 2015. The lease agreement is with Help and Caring Ministries Trust, a company affiliated through common management. Future minimum required lease payments are \$43,200 in 2011.

On March 8, 2010, the Organization opened The Family Life Thrift Store which leases retail space and warehouse space on four units with a month-to-month lease obligation with House of Hope Trust, a related party through common management. Total rent expense to House of Hope Trust for the year ended December 31, 2010 was \$34,572. The lease terms for the thrift store are as follows:

	<u>Effective Lease Date</u>	<u>Lease Term</u>	<u>Monthly Lease Payments</u>
Thrift Store			
Unit 500	February 1, 2010	Month-to-month	\$ 1,800
Units 300 and 400	June 1, 2010	Month-to-month	\$ 1,800
Warehouse unit	October 1, 2010	Month-to-month	\$ 1,250

The future minimum required lease payments for these operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Credit Counseling</u>	<u>Thrift Store</u>	<u>Total</u>
2011	\$ 43,200	\$ -	\$ 43,200
2012	43,200	-	43,200
2013	43,200	-	43,200
2014	43,200	-	43,200
2015	25,200	-	25,200
	<u>\$ 198,000</u>	<u>\$ -</u>	<u>\$ 198,000</u>

Rent expense for the years ended December 31, 2010 and 2009 totaled \$79,226 and \$44,320, respectively, of which \$41,800 and \$40,800 in 2010 and 2009 was to Help and Caring Ministries, a company affiliated through common management.

Note 7 - Retirement Plan

The Organization has a retirement plan under Section 403(b) of the Internal Revenue Code. The plan is available to all employees 21 years of age or older and who have completed 3 months of service. Employees are allowed to contribute 100% of their pretax earnings subject to certain Internal Revenue Code (IRC) limitations of \$16,500 in 2010. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions of an additional \$5,500 in 2010. The Organization matches up to 3% of the employee contributions. The Organization made matching contributions totaling \$15,754 in 2010 and \$8,016 in 2009.

Note 8 - Related Party Transactions

The Organization gave contributions of \$12,000 and \$17,000 to Partners in Ministry, a company affiliated through common management, during the years ended December 31, 2010 and 2009.

Note 9 - Client Trust Funds

The balances in the Organization's trust checking accounts are not included in the financial statements as they are not assets of the Organization, but are assets of the Organization's clients. The balances in the trust accounts as of December 31, 2010 and 2009 were \$780 and (\$875), respectively. These amounts represent the client funds that were not distributed to the client creditors or clients.

Note 10 - Thrift Store Operating Revenues and Expenses

The following are the operating revenues and expenses for the year ended December 31, 2010:

Sales	\$ 109,714
Expenses	
Salaries and wages	80,967
Rent	34,572
Office supplies and printing	17,296
Repairs and maintenance	7,544
Depreciation	6,570
Utilities	5,878
Payroll Taxes	5,092
Advertising	4,940
Travel, meetings, and training	3,480
Bank fees	1,905
Employee benefits	1,428
Telephone	1,005
Insurance	782
Postage	730
Other	175
Licenses and permits	92
Total expenses	172,456
Net loss from operations	\$ (62,742)