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NURSE-FAMILY PARTNERSHIP

FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NURSE-FAMILY PARTNERSHIP

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Nurse-Family Partnership
Denver, Colorado

We have audited the accompanying statement of financial position of Nurse-Family Partnership ("NFP") as of September 30, 2011, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of NFP's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of NFP as of September 30, 2010 and before restatement, were audited by other auditors whose report dated November 22, 2010, expressed an unqualified opinion on those statements.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the September 30, 2011 financial statements referred to above, present fairly, in all material respects, the financial position of NFP as of September 30, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 11 that were applied to restate the September 30, 2010 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

GHP Horwath, P.C.

January 12, 2012

NURSE-FAMILY PARTNERSHIP

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2011 AND 2010

	2011	2010 (As restated, Note 11)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,971,691	$ 12,214,899
Accounts receivable, net	585,773	491,707
Contributions receivable	439,210	5,893,735
Short-term investments	5,630,366	5,040,059
Prepaid expenses	143,373	161,561
Total current assets	13,770,413	23,801,961
Cash - restricted	387,358	399,903
Contributions receivable, net	1,063,967	1,406,657
Investments	3,076,336	503,724
Property and equipment, net	1,386,478	1,529,792
	5,914,139	3,840,076
Total assets	$ 19,684,552	$ 27,642,037
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 461,248	$ 1,000,819
Accrued payroll	498,604	725,844
Deferred revenue	931,523	780,392
Total current liabilities	1,891,375	2,507,055
Deferred rent	175,601	203,113
Total liabilities	2,066,976	2,710,168
Net assets:		
Temporarily restricted	1,703,992	7,532,297
Unrestricted	15,913,584	17,399,572
Total net assets	17,617,576	24,931,869
Total liabilities and net assets	$ 19,684,552	$ 27,642,037

See notes to financial statements.

NURSE-FAMILY PARTNERSHIP

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2011

	Unrestricted	Temporarily Restricted	Totals
REVENUES AND OTHER SUPPORT			
Contributions:			
Foundations	$ -	$ 223,802	$ 223,802
Federal and state	-	600,778	600,778
Individuals	421,857	17,500	439,357
In-kind	2,670	-	2,670
Site revenues	2,948,921	-	2,948,921
Investment income	65,027	247	65,274
Net assets released from restrictions	6,670,632	(6,670,632)	-
Total revenues and other support	10,109,107	(5,828,305)	4,280,802
EXPENSES			
Program services	9,188,200	-	9,188,200
Supporting services:			
Management, general and administrative	1,794,620	-	1,794,620
Fundraising	612,275	-	612,275
Total expenses	11,595,095	-	11,595,095
CHANGE IN NET ASSETS	(1,485,988)	(5,828,305)	(7,314,293)
NET ASSETS, Beginning of year (as restated, Note 11)	17,399,572	7,532,297	24,931,869
NET ASSETS, End of year	$ 15,913,584	$ 1,703,992	$ 17,617,576

See notes to financial statements.

NURSE-FAMILY PARTNERSHIP

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2010

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT			
Contributions:			
Foundations	$ 880,100	$ 5,533,834	$ 6,413,934
Federal and state	14,911	434,881	449,792
Individuals	90,387	547,992	638,379
In-kind	241,677	-	241,677
Site revenues	2,987,772	-	2,987,772
Investment income	72,707	-	72,707
Net assets released from restrictions	13,193,561	(13,193,561)	-
Total revenues and other support	17,481,115	(6,676,854)	10,804,261
EXPENSES			
Program services	9,407,863	-	9,407,863
Supporting services:			
Management, general and administrative	1,899,251	-	1,899,251
Fundraising	458,053	-	458,053
Total expenses	11,765,167	-	11,765,167
CHANGE IN NET ASSETS	5,715,948	(6,676,854)	(960,906)
NET ASSETS, Beginning of year (as restated, Note 11)	11,683,624	14,209,151	25,892,775
NET ASSETS, End of year (as restated, Note 11)	$ 17,399,572	$ 7,532,297	$ 24,931,869

See notes to financial statements.

NURSE-FAMILY PARTNERSHIP

STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
Cash flows from operating acitivities:		
Decrease in net assets	$ (7,314,293)	$ (960,906)
Adjustments to reconcile decrease in net assets		
to net cash (used in) provided by operating activities:		
Depreciation and amortization	352,059	210,504
Change in provision for uncollectible accounts receivable	3,575	-
Loss on disposal of property and equipment	99,775	-
Change in unamortized discount on contribution receivable	(57,310)	(52,008)
Net realized and unrealized losses on investments	2,614	1,308
Changes in assets and liabilities:		
Accounts receivable	(97,641)	(288,528)
Contributions receivable	5,854,525	6,455,224
Prepaid expenses	18,188	(25,072)
Cash - restricted	12,545	277,259
Accounts payable and accrued expenses	(794,323)	538,005
Deferred revenue	151,131	(498,918)
Total adjustments	5,545,138	6,617,774
Net cash (used in) provided by operating activities	(1,769,155)	5,656,868
Cash flows from investing activities:		
Purchases of property and equipment	(308,520)	(1,261,196)
Purchases of investments	(8,281,238)	(3,000,000)
Proceeds from maturities of investments	5,115,705	703,121
Net cash used in investing activities	(3,474,053)	(3,558,075)
Net (decrease) increase in cash and cash equivalents	(5,243,208)	2,098,793
Cash and cash equivalents, beginning	12,214,899	10,116,106
Cash and cash equivalents, ending	$ 6,971,691	$ 12,214,899

See notes to financial statements.

NURSE-FAMILY PARTNERSHIP

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2011

		Supporting services		
	Program services	Management, general and administrative	Fundraising	Total
Payroll and benefits	$ 5,257,537	$ 1,239,163	$ 404,176	$ 6,900,876
Consultants	1,110,027	97,819	84,975	1,292,821
Travel	706,626	71,006	14,330	791,962
Outsourced program support	390,009	-	-	390,009
Depreciation	268,947	65,369	17,743	352,059
Telephone	231,314	57,410	14,473	303,197
Rent and occupancy	214,997	44,790	12,134	271,921
Other	166,851	89,869	15,133	271,853
Training and other events	198,819	51,042	803	250,664
Advertising and marketing	198,636	-	19,077	217,713
Printing and copying	202,867	3,450	3,901	210,218
Professional services	94,275	43,600	6,012	143,887
Dues and subscriptions	43,061	9,185	10,667	62,913
Postage and shipping	42,669	6,188	2,063	50,920
Equipment and maintenance	31,048	8,154	2,026	41,228
Office supplies	26,942	7,575	4,762	39,279
Bad debts	3,575	-	-	3,575
Total expenses	$ 9,188,200	$ 1,794,620	$ 612,275	$ 11,595,095

See notes to financial statements.

NURSE-FAMILY PARTNERSHIP

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2010

		Supporting services		
	Program services	Management, general and administrative	Fundraising	Total
Payroll and benefits	$ 4,854,895	$ 1,098,221	$ 303,216	$ 6,256,332
Outsourced program support	1,400,215	-	-	1,400,215
Consultants	967,689	389,272	35,208	1,392,169
Travel	545,239	71,996	11,136	628,371
Printing and copying	319,001	2,259	4,198	325,458
Advertising and marketing	304,990	1,500	8,046	314,536
Rent and occupancy	229,633	48,658	13,658	291,949
Training and other events	147,734	55,712	27,817	231,263
Depreciation	165,572	35,084	9,848	210,504
Telephone	159,640	36,159	9,848	205,647
Other	81,278	89,785	10,254	181,317
Professional services	107,310	48,193	5,661	161,164
Dues and subscriptions	30,379	7,410	15,827	53,616
Offices supplies	42,744	7,655	1,691	52,090
Postage and shipping	36,745	4,440	715	41,900
Equipment and maintenance	14,799	2,907	930	18,636
Total expenses	$ 9,407,863	$ 1,899,251	$ 458,053	$ 11,765,167

See notes to financial statements.

NOTE 1: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization:

Nurse-Family Partnership (“NFP”) is a non-profit tax-exempt 501(c)(3) corporation, established in 2003. NFP’s primary objective is to replicate and grow the Nurse-Family Partnership program® (the “Program”) which is delivered through agencies (“Implementing Agencies”) throughout the United States. Implementing Agencies are independent from NFP and implement the Program by contract.

The Program is an evidence-based nurse home visitation program that serves low-income, first-time mothers and their children. These families face significant short-term and long-term risks to their health, personal development, and economic well-being. Through regular visits with specially trained registered nurses, the Program assists the mothers during their pregnancies and the first two years of their first child’s life. The Program helps develop behaviors that yield better pregnancies and better parents, emotionally and physically healthier children, and greater economic self-sufficiency.

The Program is based upon intellectual property developed by Dr. David Olds, Director of the Prevention Research Center, University of Colorado. NFP has been granted the perpetual, exclusive, and royalty-free right to use the intellectual property by the University of Colorado. NFP earns fees for educational, consulting and technical assistance services provided to the Implementing Agencies, and receives funding from private foundations, federal and state grants and other public support. There are no fees charged at any time to the enrolled families.

The accompanying financial statements include the accounts of NFP, and do not include the financial position or results of operations from any Implementing Agency.

Cash and cash equivalents:

NFP considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include demand deposit accounts and treasury bills. Such deposit accounts, at times, may exceed federally insured limits; however, these accounts are held by a major financial institution. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. Cash and cash equivalents restricted by donors are not considered cash and cash equivalents for purposes of the statements of cash flows.

NOTE 1: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments:

Investments are reported at fair value based upon quoted market prices. The investments classified as short-term are scheduled to mature within one year or it is the intent of management to sell such investments within one year. The investments classified as long-term are scheduled to mature in a period beyond one year or have no scheduled maturity dates. Investment income and gains and losses are reported in the statements of activities as increases or decreases in unrestricted, temporarily restricted, or permanently restricted net assets based on the existence of donor imposed restrictions. Realized and unrealized gains and losses and interest income are included in the change in net assets. Donated investments are recorded as contributions at their estimated fair values at the date of the donation.

Investment expenses:

Expenses relating to investment income, including custodial fees and investment advisory fees of $68,603 and $62,858, respectively, for the years ended September 30, 2011 and 2010, are included in management, general and administrative expenses in the accompanying statements of activities.

Fair value measurements:

NFP measures its financial assets and liabilities under accounting guidance, which establishes a three-tier fair value hierarchy and prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. In determining fair value, NFP utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Much of the information used to determine fair values is highly subjective and judgmental in nature, therefore the results may not be precise. In addition, estimate of cash flows, risk characteristics, credit quality, and interest rates are all subject to change. Since the fair values are estimated as of the statement of financial position dates, the amounts which will actually be realized or paid upon settlement or maturity of the various instruments could be significantly different than the estimates.

Property and equipment:

Property and equipment are stated at cost for purchased assets. Donations of property and equipment are recorded at estimated fair value at the date of receipt. Depreciation is computed over the estimated useful lives of the assets (4 - 7 years) using the straight-line method. All assets in excess of $2,000 and with a useful life greater than one year are capitalized. Leasehold improvements are stated at cost and are amortized over the shorter of the estimated useful life of the related asset or the lease term. NFP capitalizes certain costs related to software development, including the development of a new Clinical Information System (CIS), website revisions, and a Customer Relations Management system.

NOTE 1: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued):

NFP's management assesses the carrying value of its long-lived assets for impairment when circumstances warrant such a review. If management determines that impairment has occurred, a loss is recognized based on the difference between the assets' carrying values over their estimated fair values. Based on its review, management does not believe that any impairment has occurred as of September 30, 2011.

Revenue recognition:

Contributions:

Contributions of cash and other assets received without donor stipulations are recorded as unrestricted revenue that increases unrestricted net assets. NFP recognizes contributions of cash and other assets as restricted revenue if they are received with donor stipulated time or purpose restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or a 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. All temporarily restricted contributions containing restrictions that are met in the same year as receipt are classified first as restricted, and then as unrestricted as the conditions are met and the restrictions are released.

Conditional pledges to give cash or other assets are recognized as contribution revenues and receivables when the conditions are substantially met. The standard conditions are the achievement of foundation or donor approved growth metrics for NFP. These growth metrics contain quarterly targets, so NFP would only be able to recognize conditional pledges that are based upon quarters already completed. Once the conditional growth requirements have been met, the pledge is recognized as temporarily restricted until it is actually realized.

NFP reports contributions of services and goods as unrestricted revenue unless explicit donor stipulations specify how the donated assets must be used. NFP received consulting services from the Bridgespan Group for product pricing analysis during 2010 which was sponsored by the Edna McConnell Clark Foundation. These services were valued at $240,000 and were recorded as contribution revenue and consulting expenses in the 2010 statement of activities.

When NFP receives contributions for the benefit of designated beneficiaries, and thus acts more as a conduit, the contribution is recognized as a liability as opposed to revenue. At September 30, 2011, deposits held in custody for others are recorded as cash-restricted and accounts payable and accrued expenses. There were no such deposits at September 30, 2010.

NOTE 1: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued):

Contributions (continued):

Fund-raising revenues are recognized either as received, or upon completion of the specified fund-raising event when the amount can be reasonably estimated, whichever is more appropriate. The net proceeds related to such events are recorded when the event is complete, and the net proceeds can be reasonably estimated.

Site revenues:

Site revenues primarily consist of revenue earned from Implementing Agencies for educational, consulting and technical assistance services. These services are recognized as revenue when the service is provided, or are supported by a contract for which NFP recognizes revenue ratably over the contract period, generally one year.

Management regularly reviews accounts receivable to evaluate collectability. Based upon the specific Implementing Agency's history, the applicable contract and the outstanding balance, management records an allowance for doubtful accounts for those accounts specifically identified as uncollectable. At September 30, 2011, the allowance was approximately $3,600. Management does not believe that any allowance was necessary at September 30, 2010.

Expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Indirect expenses are allocated to program and supporting services on the basis of periodic time analyses, the area benefited, and usage of the assets. All other costs can be specifically identified with a particular function and are charged directly to that function.

Advertising costs:

Advertising costs are expensed as incurred. NFP uses advertising to promote its programs to individuals and Implementing Agencies that it serves, as well as to provide awareness to the general public of its services. Advertising and marketing expense was $217,713 and $314,536 for the years ended September 30, 2011 and 2010, respectively.

NOTE 1: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxes:

NFP is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC); accordingly, no provision for income taxes is included in the accompanying financial statements. NFP received final determination as a public charity under Section 501(c)(3) of the IRC in December of 2007. NFP assesses the likelihood of the financial statement effect of a tax position that should be recognized when it is more likely than not that the position will be sustained upon examination by a taxing authority based on the technical merits of the tax position, circumstances, and information available as of the reporting date. Management does not believe that there are any tax positions that would result in an asset or liability for taxes being recognized in the financial statements.

NFP's policy is to recognize interest and penalties accrued on any unrecognized tax positions as a component of income tax expense. As of September 30, 2011 and 2010, NFP did not have any accrued interest or penalties associated with any unrecognized tax positions, nor were any interest expense or penalties recognized during the years ended September 30, 2011 and 2010. There are open statutes of limitations for taxing authorities to audit NFP's tax returns for 2008 through the current period.

Recent accounting pronouncements:

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06 *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 amended certain provisions of ASC 820-10, by requiring additional disclosures for transfers in and out of Level 1 and Level 2 fair value measurements, as well as requiring fair value measurement disclosures for each class of assets and liabilities in addition to disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. These additional disclosures are included in Note 6. Certain provisions of ASU 2010-06 are effective for NFP for the fiscal year beginning October 1, 2011. These provisions will require NFP to present separately, information on all purchases, sales, issuances, and settlements of financial instruments valued using significant unobservable inputs (Level 3) in the reconciliation for fair value measurements. NFP does not believe the adoption of ASU 2010-06 beginning October 1, 2011 will have a material impact on its financial statements or disclosures.

Management has evaluated other recently issued accounting pronouncements and does not believe that any of these pronouncements will have an impact on NFP's financial statements.

NOTE 1: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates:

The preparation of NFP's financial statements, in conformity with accounting principles generally accepted in the United States of America, requires NFP's management to make certain estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassification:

Certain amounts reported in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

NOTE 2: BUSINESS PLAN

In 2007, NFP developed a long-term Business Plan for the next ten years. The purpose of the Business Plan was to guide NFP through a period of anticipated and significant organizational growth. The Business Plan is generally updated and extended every two years or as required by changing economic conditions. The Business Plan contains and is dependent upon certain assumptions regarding the general economy, sustained public revenue and funding, growth of the Program and the related costs to provide the required services. Management believes that the assumptions are reasonable and achievable, although successful attainment of the objectives is not assured for any given year or cumulatively over the entire planning period.

Also in 2007, NFP initiated a $50 million dollar capital campaign that was designed to build a reserve for operating expenses that would enable NFP to implement the Business Plan over the ten-year period. The campaign was successful primarily due to the inclusion of several prominent foundations, many of whom committed to multi-year, multi-million dollar pledges. Subsequent year contributions were conditional on NFP achieving certain growth metrics outlined in the Business Plan.

NFP received a significant majority of the capital campaign contributions from 2008 to 2010. As a result, while both the 2011 and 2010 contribution revenue results either met or exceeded the Business Plan metrics, the contribution revenue was over $7.7 million in 2010, but decreased to $1.3 million in 2011. This resulted in a funding concentration in 2010 when NFP received 80% of its contribution revenue from just three private foundations. In contrast, the 2011 contribution revenue declined while the donor base expanded; thus removing the corresponding concentration.

NOTE 3: CONTRIBUTIONS RECEIVABLE

Contributions receivable consists of the following at September 30, 2011 and 2010:

	2011	2010
Robert Wood Johnson Foundation	$ -	$ 3,333,333
Board Member	400,000	626,898
Kresge Foundation	-	1,000,000
Robertson Foundation	-	925,000
Other	39,210	8,504
Current contributions receivable	439,210	5,893,735
Board Member	1,200,000	1,600,000
Unamortized discount	(136,033)	(193,343)
Long-term contribution receivable	1,063,967	1,406,657
Total contributions receivable	$ 1,503,177	$ 7,300,392

Amounts scheduled to be received within the next twelve months are recorded at their net realizable value, while amounts to be received after the next twelve months are shown as long-term and are recorded at the present value of their estimated cash flows using a discount rate of 4% for 2011 and 2010. Amortization of the discount is included in contribution revenue. Long-term contribution receivable at September 30, 2011 is expected to be collected in one to five years.

NOTE 4: CASH - RESTRICTED

Restricted cash consists of contributions that place temporary restrictions on the use of the cash. In addition, restricted cash includes assets for which NFP is acting as an agent or intermediary. Restricted cash at September 30, 2011 and 2010 was received from and was restricted to the following:

Donor	2011	2010
Heising-Simons Foundation	$ 127,589	$ -
Wells Fargo CD	97,703	97,512
The Trustees Philanthropy Fund of the Fidelity Charitable Gift Fund	88,154	-
Pennsylvania Dept. of Public Welfare	29,088	75,613
William T. Grant Foundation	18,051	-
Fox Family Foundation	15,000	-
Virginia Hill Charitable Foundation	7,074	4,463
Wellpoint Foundation	-	201,677
Johnson & Johnson	-	10,000
The Hearst Foundations	-	5,313
Medimmune, LLC	-	5,000
Other	4,699	325
Total cash - restricted	$ 387,358	$ 399,903

NOTE 4: CASH - RESTRICTED (CONTINUED)

Directed Use Categories	2011	2010
Program implementation	$ 140,247	$297,603
Technology infrastructure	103,154	-
Purchasing card, collateral (Note 10)	97,703	97,512
Deposits held in custody for others	34,481	-
Program recipient assistance	7,074	4,463
Other	4,699	325
Total cash - restricted	$ 387,358	$ 399,903

NOTE 5: INVESTMENTS

NFP's investments consist of the following at September 30, 2011 and 2010:

	2011	2010
Certificates of deposit	$ 3,019,878	$ 3,492,139
Corporate debt securities	5,686,824	2,051,644
Total investments	$ 8,706,702	$ 5,543,783

The following schedule summarizes the investment return in the statements of activities for the years ended September 30, 2011 and 2010:

	2011	2010
Investment income	$ 67,888	$ 74,015
Net realized and unrealized losses	(2,614)	(1,308)
Total investment return	$ 65,274	$ 72,707

NOTE 6: FAIR VALUE MEASUREMENTS

NFP's financial assets are measured at fair value on a recurring basis and include money market funds, certificates of deposit, treasury bills and corporate debt securities, which are classified within Level 1 or Level 2, as these assets are valued using quoted market prices or alternative pricing sources and models utilizing observable market inputs. NFP recognizes transfers of assets into and out of Levels as of the date an event or change in circumstances causes the transfer. There have been no changes in the methodologies used at September 30, 2011 and 2010, and there were no transfers between Level 1 and 2 during the year ended September 30, 2011.

NOTE 6: FAIR VALUE MEASUREMENTS (CONTINUED)

The following details the related fair value measurement as of September 30, 2011 and 2010:

	Level	2011	2010
Cash and cash equivalents, including cash - restricted:			
Cash	1	$ 697,109	$ 801,645
Money market funds	1	64,336	2,642,172
Treasury bills	1	6,499,900	9,073,473
Certificates of deposit	2	97,704	97,512
Investment securities:			
Certificates of deposit	2	3,019,878	3,492,139
Corporate debt securities:			
AAA rating	1	505,133	512,505
AA rating	1	4,166,684	1,030,014
A rating	1	1,015,007	509,125
		$ 16,065,751	$ 18,158,585

NOTE 7: PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30, 2011 and 2010:

	2011	2010
Leasehold improvements	$ 291,355	$ 291,355
Furniture and fixtures	136,440	128,491
Computers – PC	169,273	175,045
Computers – Servers	400,927	396,967
Software in use	1,214,130	530,401
Software in development	-	625,698
	2,212,125	2,147,957
Accumulated depreciation and amortization	(825,647)	(618,165)
Property and equipment, net	$ 1,386,478	$ 1,529,792

NOTE 8: RELATED PARTY TRANSACTONS

Invest In Kids (IIK) is an implementation partner of the Program and performs certain consulting and technical assistance functions on behalf of NFP to Implementing Agencies in Colorado. The IIK Executive Director is related to the NFP Board Chairman, and the organizations share a common Board member. NFP has agreed to pay IIK 25% of the technical assistance revenue and 100% of the start up revenue earned from Colorado Implementing Agencies. For the years ended September 30, 2011 and 2010, these payments were $44,912 and $39,769, respectively.

NOTE 9: RETIREMENT PLAN

NFP sponsors a 401(k) plan through its Professional Employer Organization relationship with ADP, covering all employees who have completed three months of service and have attained age 21. NFP contributes 10% of the employees' compensation which vests immediately. For the years ended September 30, 2011 and 2010, total 401(k) contributions were $540,110 and $499,860, respectively.

NOTE 10: COMMITMENTS

Leases:

NFP leases office space in Denver, Colorado that expires November 30, 2016 and contains two two-year renewal options. The agreement contains certain inducements and allowances that are recognized over the term of the lease, as well as cost escalation clauses. NFP recognizes rental expense on a straight-line basis over the term of the lease.

NFP is responsible for a proportionate share of the building common area maintenance and other operating costs.

Lease expense for the years ended September 30, 2011 and 2010 was $262,795 and $282,648, respectively. Following are the minimum future operating lease payments:

Year ending September 30,	
2012	$ 292,622
2013	298,363
2014	304,064
2015	309,765
2016	315,466
Thereafter	52,736
	$ 1,573,016

Commercial credit card program:

At September 30, 2011, NFP has a commercial credit card program (Purchasing Card) with a bank with maximum borrowings of up to $95,000. At September 30, 2011, NFP had outstanding borrowings of $71,838 which is included in accounts payable and accrued expenses. The purpose of the program is to allow NFP to utilize credit cards to pay for certain recurring expenses such as travel and office supplies. NFP pays all Purchasing Card charges on a monthly basis in arrears. The Wells Fargo CD serves to collateralize the Purchasing Card monthly charges.

NOTE 11: RECLASSIFICATION WITHIN NET ASSETS

In December 2011, management determined that certain temporarily restricted net assets were misclassified as unrestricted net assets. As a result, NFP's 2010 beginning and ending net assets have been reclassified and properly presented, as follows: beginning temporarily restricted net assets at October 1, 2009 were reclassified from $1,364,208 to $14,209,151 (with the offsetting reclassification to unrestricted net assets); and, ending temporarily restricted net assets at September 30, 2010 were reclassified from $1,638,561 to $7,532,297 (with the offsetting reclassification to unrestricted net assets). These reclassifications had no impact on previously presented changes in total net assets, results of operations or cash flows.

NOTE 12: SUBSEQUENT EVENTS

Management evaluated events through January 12, 2012, the date that NFP's financial statements were available to be issued, for consideration of subsequent events to be included in its September 30, 2011 financial statements.