

**NRI COMMUNITY SERVICES, INC.
AND AFFILIATES**

**Consolidating Financial Statements
and Supplementary Information**

Year Ended June 30, 2010

(With Independent Auditors' Report Thereon)

Kahn, Litwin, Renza & Co., Ltd.
Certified Public Accountants and Business Consultants



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
NRI Community Services, Inc. and Affiliates:

We have audited the accompanying consolidating statement of financial position of NRI Community Services, Inc. and Affiliates (collectively, the Organization) (note 1) as of June 30, 2010 and the related consolidating statement of activities and changes in net assets and consolidating statement of cash flows for the year then ended. These consolidating financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidating financial statements based on our audit. We did not audit the financial statements of Housing Partners for Positive Living, Inc., Leo Tanguay Apartments, Inc., Roland M. Boucher Apartments, Inc., and the Russo Street Apartments, Inc., (collectively, HUD Borrowers Corporations), which statements reflect total assets and revenues constituting 42% and 9%, respectively, of the related consolidated totals. These statements were audited by another auditor whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the HUD Borrowers Corporations are based solely on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidating 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, based on our audit and the report of the other auditor, the consolidating financial statements referred to above present fairly, in all material respects, the consolidating financial position of NRI Community Services, Inc. and Affiliates as of June 30, 2010, and the changes in their consolidating net assets and their consolidating cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The supplementary information on pages 18 through 27 for the years ended June 30, 2010 and 2009 is presented for the purposes of additional analysis and is not a required part of the basic consolidating 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.

In accordance with Government Auditing Standards, we have also issued our report dated September 24, 2010 on our consideration of NRI Community Services Inc.'s internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contract, 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 on an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Kalu, Litwin, Kenya + Co., Ltd.

September 29, 2010

NRI COMMUNITY SERVICES, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
 June 30, 2010

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	NRI Community Services, Inc.	NRI Affiliates	Eliminations	Subtotal NRI Community Services, Inc. and NRI Affiliates	HUD Borrowers Corporations	Total
Assets						
Current Assets:						
Cash	\$ 303,525	\$ 31,082	\$ -	\$ 334,607	\$ 129,020	\$ 463,627
Cash held in trust, client disability income	70,755	-	-	70,755	-	70,755
Cash held in trust, tenants' security deposits	-	-	-	-	25,072	25,072
Notes receivable - intercompany, short-term	41,666	-	(41,666)	-	-	-
Accounts receivable, net	2,577,546	165,148	(351,932)	2,390,762	14,660	2,405,422
Deposits	15,931	-	-	15,931	-	15,931
Prepaid expenses	41,577	2,968	-	44,545	6,703	51,248
Total current assets	3,051,000	199,198	(393,598)	2,856,600	175,455	3,032,055
Reserve for replacement and escrows	-	-	-	-	486,650	486,650
Notes receivable - intercompany, long-term	977,753	-	(977,753)	-	-	-
Deferred financing and bond fees	152,329	-	-	152,329	157,212	309,541
Intangible assets	-	12,000	-	12,000	-	12,000
Property and equipment, net	4,031,560	1,442,612	-	5,474,172	5,265,952	10,740,124
Total other assets	5,161,642	1,454,612	(977,753)	5,638,501	5,909,814	11,548,315
Total Assets	\$ 8,212,642	\$ 1,653,810	\$ (1,371,351)	\$ 8,495,101	\$ 6,085,269	\$ 14,580,370
Liabilities and Net Assets (Deficit)						
Current Liabilities:						
Line of credit	\$ 1,200,000	\$ -	\$ -	\$ 1,200,000	\$ -	\$ 1,200,000
Current portion of bond payable	65,000	-	-	65,000	-	65,000
Current portion of notes payable - intercompany	-	41,666	(41,666)	-	-	-
Current portion of long-term debt	312,634	17,598	-	330,232	40,427	370,659
Accounts payable	274,718	110,338	(140,512)	244,544	126,650	371,194
Accrued payroll and payroll taxes	340,602	24,188	-	364,790	-	364,790
Accrued expenses - other	138,091	211,420	(211,420)	138,091	103,811	241,902
Client disability income accounts	70,755	-	-	70,755	-	70,755
Tenants' security deposits	-	-	-	-	24,853	24,853
Total current liabilities	2,401,800	405,210	(393,598)	2,413,412	295,741	2,709,153
Bond payable, less current portion	3,075,000	-	-	3,075,000	-	3,075,000
Notes payable - intercompany, less current portion	-	977,753	(977,753)	-	-	-
Long-term debt, less current portion	415,421	342,129	-	757,550	4,202,448	4,959,998
Notes payable, Rhode Island Housing	-	-	-	-	49,109	49,109
Refundable grant	-	-	-	-	239,300	239,300
Reserve for loss on hedging transactions	464,186	-	-	464,186	-	464,186
Total liabilities	6,356,407	1,725,092	(1,371,351)	6,710,148	4,786,598	11,496,746
Net Assets:						
Unrestricted:						
Undesignated	430,278	(248,413)	-	181,865	-	181,865
Board designated	479,210	-	-	479,210	-	479,210
Board designated for replacement reserves	250,000	-	-	250,000	-	250,000
Reserve for loss on hedging transactions	(464,186)	-	-	(464,186)	-	(464,186)
Investment in property and equipment	1,160,933	177,131	-	1,338,064	-	1,338,064
Total unrestricted net assets (deficit)	1,856,235	(71,282)	-	1,784,953	-	1,784,953
Temporarily restricted:						
Undesignated	-	-	-	-	324,703	324,703
Investment in property and equipment	-	-	-	-	973,968	973,968
Total temporarily restricted net assets	-	-	-	-	1,298,671	1,298,671
Total net assets (deficit)	1,856,235	(71,282)	-	1,784,953	1,298,671	3,083,624
Total Liabilities and Net Assets (Deficit)	\$ 8,212,642	\$ 1,653,810	\$ (1,371,351)	\$ 8,495,101	\$ 6,085,269	\$ 14,580,370

See accompanying notes to consolidating financial statements and independent auditors' report.

NRI COMMUNITY SERVICES, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2010

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	NRI Community Services, Inc.	NRI Affiliates	Eliminations	Subtotal NRI Community Services, Inc. and NRI Affiliates	HUD Borrowers Corporations	Total
Changes in Unrestricted Operating Net Assets:						
Public support and revenue:						
Grants and contracts	\$ 2,789,836	\$ 120,239	\$ -	\$ 2,910,075	\$ -	\$ 2,910,075
Municipalities	665,275	-	-	665,275	-	665,275
In-kind contributions	283,000	-	-	283,000	-	283,000
Rent and rent subsidies	287,360	716,233	(186,396)	817,197	1,305,628	2,122,825
Program fees	74,195	-	-	74,195	-	74,195
Third party fees	1,917,607	-	-	1,917,607	-	1,917,607
Medicaid and medicare	8,052,683	-	-	8,052,683	-	8,052,683
Interest	53,186	-	(53,161)	25	2,814	2,839
Fundraising and contributions	50,730	-	-	50,730	-	50,730
Other	687,493	762,967	(698,164)	752,296	36,702	788,998
	<u>14,861,365</u>	<u>1,599,439</u>	<u>(937,721)</u>	<u>15,523,083</u>	<u>1,345,144</u>	<u>16,868,227</u>
Net assets released from restrictions	-	-	-	-	185,743	185,743
Total public support and revenue	<u>14,861,365</u>	<u>1,599,439</u>	<u>(937,721)</u>	<u>15,523,083</u>	<u>1,530,887</u>	<u>17,053,970</u>
Program services:						
Home and community support - children	1,618,787	-	-	1,618,787	-	1,618,787
Home and community support - adults	6,002,624	-	(66,541)	5,936,083	-	5,936,083
Residential/housing	3,387,643	606,489	(579,837)	3,414,295	1,267,729	4,682,024
Other programs - children	1,227,133	-	(46,031)	1,181,102	-	1,181,102
Other programs - adults	669,963	777,231	(102,733)	1,344,461	-	1,344,461
Support services:						
Management and general	1,528,695	147,079	(142,579)	1,533,195	-	1,533,195
Fundraising expenses	3,472	-	-	3,472	-	3,472
Depreciation and amortization	535,553	103,121	-	638,674	263,158	901,832
Total expenses	<u>14,973,870</u>	<u>1,633,920</u>	<u>(937,721)</u>	<u>15,670,069</u>	<u>1,530,887</u>	<u>17,200,956</u>
Changes in unrestricted operating net assets	<u>(112,505)</u>	<u>(34,481)</u>	<u>-</u>	<u>(146,986)</u>	<u>-</u>	<u>(146,986)</u>
Loss on hedging transactions	(162,570)	-	-	(162,570)	-	(162,570)
Changes in unrestricted net assets	<u>(275,075)</u>	<u>(34,481)</u>	<u>-</u>	<u>(309,556)</u>	<u>-</u>	<u>(309,556)</u>
Changes in Temporarily Restricted Net Assets:						
Assets released from restrictions	-	-	-	-	(185,743)	(185,743)
Changes in temporarily restricted net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(185,743)</u>	<u>(185,743)</u>
Changes in Total Net Assets	<u>(275,075)</u>	<u>(34,481)</u>	<u>-</u>	<u>(309,556)</u>	<u>(185,743)</u>	<u>(495,299)</u>
Net Assets (deficit), beginning of year	<u>2,131,310</u>	<u>(36,801)</u>	<u>-</u>	<u>2,094,509</u>	<u>1,484,414</u>	<u>3,578,923</u>
Net Assets (deficit), end of year	<u>\$ 1,856,235</u>	<u>\$ (71,282)</u>	<u>\$ -</u>	<u>\$ 1,784,953</u>	<u>\$ 1,298,671</u>	<u>\$ 3,083,624</u>

NRI COMMUNITY SERVICES, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended June 30, 2010

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	NRI Community Services, Inc.	NRI Affiliates	Eliminations	Subtotal NRI Community Services, Inc. and NRI Affiliates	HUD Borrowers Corporations	Total
Cash Flows from Operating Activities:						
Changes in total net assets	\$ (275,075)	\$ (34,481)	\$ -	\$ (309,556)	\$ (185,743)	\$ (495,299)
Adjustments to reconcile changes in total net assets to net cash provided (used) by operating activities:						
Depreciation and amortization	535,553	103,121	-	638,674	263,158	901,832
Bad debt expense	126,009	-	-	126,009	-	126,009
Loss on hedging	162,570	-	-	162,570	-	162,570
Changes in assets and liabilities:						
Cash held in trust, tenants' security deposits	-	-	-	-	(621)	(621)
Accounts receivable	(428,753)	(97,690)	(4,792)	(531,235)	(6,918)	(538,153)
Deposits	1,352	-	-	1,352	-	1,352
Prepaid expenses	26,963	5,440	-	32,403	34,349	66,752
Escrow and reserves	-	-	-	-	1,093,926	1,093,926
Accounts payable	3,006	71,388	4,792	79,186	54,026	133,212
Accrued payroll and payroll taxes	(246,108)	(5,630)	-	(251,738)	-	(251,738)
Accrued expenses - other	(62,160)	28,934	-	(33,226)	12,404	(20,822)
Tenants' security deposits	-	-	-	-	359	359
Net cash provided (used) by operating activities	(156,643)	71,082	-	(85,561)	1,264,940	1,179,379
Cash Flows from Investing Activities:						
Proceeds from notes receivable - intercompany	45,189	-	(45,189)	-	-	-
Acquisition of property and equipment	(238,194)	(47,686)	-	(285,880)	(1,209,256)	(1,495,136)
Proceeds from sale of investment	22,140	-	-	22,140	-	22,140
Net cash used by investing activities	(170,865)	(47,686)	(45,189)	(263,740)	(1,209,256)	(1,472,996)
Cash Flows from Financing Activities:						
Proceeds from line of credit, net	625,000	-	-	625,000	-	625,000
Payments on notes payable - intercompany	-	(45,189)	45,189	-	-	-
Proceeds from notes payable, Rhode Island Housing	-	-	-	-	4,055	4,055
Payments on long-term debt	(103,912)	(16,338)	-	(120,250)	(38,125)	(158,375)
Net cash provided (used) by financing activities	521,088	(61,527)	45,189	504,750	(34,070)	470,680
Net Increase in Cash	193,580	(38,131)	-	155,449	21,614	177,063
Cash, beginning of year	109,945	69,213	-	179,158	107,406	286,564
Cash, end of year	\$ 303,525	\$ 31,082	\$ -	\$ 334,607	\$ 129,020	\$ 463,627

NRI COMMUNITY SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
Year Ended June 30, 2010

1. Nature of Operations

NRI Community Services, Inc. (NRICS) and Affiliates (collectively, the Organization) is a not-for-profit corporation chartered under the laws of the State of Rhode Island.

The following entities (collectively, the Affiliates) are included in the consolidating financial statements of the Organization:

- NRI Affiliates:
 - Blackstone Valley Mental Health Realty Corporation, Inc.
 - Community Residential Services, Inc.
 - Community Staffing Resources, Inc.
 - Monday Morning Industries, Inc.

- HUD Borrowers Corporations:
 - Housing Partners for Positive Living, Inc.
 - Leo Tanguay Apartments, Inc.
 - Roland M. Boucher Apartments, Inc.
 - Russo Street Apartments, Inc., d/b/a Albert P. Morin Apartments

The Organization's primary purpose, broadly defined, is to provide or arrange high quality, comprehensive mental health and substance abuse programs and services. Programs and services provided by the Organization include, but are not limited to treatment, consultation, education, supported employment, prevention and housing services.

The HUD Borrowers Corporations are single purpose, 501(c)(3), RI non-profit organizations, sponsored by NRICS. The entities own and operate low rent housing for elderly, disabled, or chronically mentally ill adults. The financing of these apartment buildings are amortizing Housing and Urban Development (HUD) issued mortgages or HUD capital advances through the HUD 202 & 211 programs. NRICS provides supportive services to the tenants as part of these agreements. Each corporation is organized to be self sustaining and none of the income, assets or liabilities of one corporation is shared with the other corporations or NRICS.

NRICS also does business using specific program names as follows:

- Robert J. Wilson/Mabel Anderson House
- Viola M. Berard School
- Capitol Hill House
- Chicoine House
- Singleton House
- Teddy Jackson House
- Jellison House

NRI COMMUNITY SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
Year Ended June 30, 2010

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidating financial statements include the accounts of NRICS, NRI Affiliates and the HUD Borrowers Corporations listed in Note 1. NRICS has the ability to appoint and elect a voting majority of the Board of Directors of each of the Affiliates. All significant intercompany balances and transactions are eliminated in consolidation.

Basis of Presentation

The net assets of the Organization have been broken down into three different classifications as follows:

Unrestricted net assets - consist of unrestricted amounts, which are available for use in carrying out the mission of the Organization.

Temporarily restricted net assets - consist of those amounts, which are restricted by the funding source for a specific purpose. When a restriction expires, either by the passage of a stipulated time restriction or by the accomplishment of a specific purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidating statement of activities and changes in net assets as net assets released from restrictions. The Organization has elected, however, to report restricted revenues whose restrictions are met in the same reporting period as they are received as unrestricted support.

Permanently restricted net assets - result from contributions from donors who place restrictions on the use of donated funds mandating that the original principal remain invested in perpetuity.

Accounts Receivable

Accounts receivable are carried at net realizable value. Doubtful accounts are provided for on the basis of anticipated collection losses. The estimated losses are determined from historical collection experience and a review of outstanding accounts receivable. A receivable is considered past due if the Organization has not received payment within stated terms. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. The allowance for doubtful accounts was \$93,632 at June 30, 2010.

The Organization does not accrue interest on accounts receivable.

Deferred Financing and Bond Fees

The Organization incurred financing fees in securing a bond commitment and a long-term debt agreement. These costs are amortized on a straight-line basis over the term of the commitment and agreement. Amortization expense for the year ended June 30, 2010 was approximately \$10,300.

NRI COMMUNITY SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
Year Ended June 30, 2010

Intangible Assets

Intangible assets include a customer list that was acquired by Community Staffing Resources, Inc. This intangible asset is amortized on a straight-line basis over its estimated useful life (sixty months). The Organization's management regularly reviews the carrying value of this asset for impairment and decline in value. As of June 30, 2010, no impairment existed with respect to this asset. Amortization expense for the year ended June 30, 2010 was \$4,000.

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are expensed as incurred. Renewals and betterments in excess of \$1,000 that materially extend the life of the assets are capitalized. Donated assets are recorded at fair market value. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, which range from 3 to 39 years.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities NRICS has the ability to access.

Level 2 are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs are developed based on the best information available in the circumstances and may include the NRICS's own data.)

NRICS reports fair value on a recurring basis. The interest rate swap agreement is classified as Level 2 within the fair value hierarchy.

Level 2 interest rate swap agreement is valued based upon valuation models which utilize relevant factors such as the contractual terms of the interest rate swap agreement, credit spreads for the contracting parties and interest rate curves.

NRI COMMUNITY SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
Year Ended June 30, 2010

Revenue Recognition

NRICS and the NRI Affiliates receive the majority of its funding through fee for service and cost reimbursement contracts for which revenue is recognized when services to clients have been rendered and/or contractual obligations have been met.

The HUD Borrowers Corporations recognize revenue ratably over the term of the related lease or rental agreement.

Income Taxes

The Association is a public charity exempt from federal income taxes in accordance with Section 501(c)(3) of the Internal Revenue Code.

Authoritative guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Organization's tax returns to determine whether the tax positions are "more likely than not" to be sustained by the applicable taxing authority. Tax positions not deemed to meet the "more likely than not" threshold would be recorded as a tax benefit or expense in the current year.

The Organization annually files IRS Form 990 and IRS Form 990-T, reporting various information that the IRS uses to monitor the activities of tax exempt entities. These tax returns are subject to review by the taxing authorities and are subject to examination by the IRS, generally for three years after they were filed. The Organization currently has no tax examinations in progress.

Concentration of Credit Risk and Market Risk

Financial instruments which potentially subject the Organization to concentrations of credit and market risks are cash, accounts receivable and revenue.

The Organization maintains its operating accounts in several financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to specified limits. From time to time, the Organization had bank balances in excess of federally insured limits.

The majority of the Organization's outstanding receivables at June 30, 2010 were from Federal and State contracts. Based on collections to date and past history of collections, NRICS has determined that the reserve for uncollectible accounts recorded at year-end is considered sufficient.

The primary assets of the HUD Borrowers Corporations are 102 apartment units in 11 different apartment buildings. Their operations are concentrated in the subsidized real estate market. In addition, they operate in a heavily regulated environment, subject to administrative directives, rules and regulations of federal regulatory agencies, specifically HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD.

NRI COMMUNITY SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
Year Ended June 30, 2010

The revenue received under terms of various agreements with multiple state agencies from two funding sources comprised approximately 48% of total support for the year ended June 30, 2010.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Allocation of Expenses

Certain costs of the Organization benefit more than one program and/or support service. Accordingly, these costs have been allocated in a systematic and rational manner among the programs benefited. Allocation factors used are space, burden on IT systems and full-time employees.

Subsequent Events

Management has evaluated subsequent events through September 24, 2010, which is the date these financial statements were available to be issued and has reported the Organization's refinancing agreement in note 4 and note 6 of this report.

3. Property and Equipment

Property and equipment consisted of the following:

Land	\$	1,261,730
Buildings and improvements		15,360,150
Furniture and equipment		2,185,536
Vehicles		206,401
		19,013,817
Less accumulated depreciation		8,273,693
Property and equipment, net	\$	10,740,124

Depreciation expense for the year ended June 30, 2010 was \$897,832.

NRI COMMUNITY SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
Year Ended June 30, 2010

4. Line of Credit

NRICS has a secured line of credit agreement with a bank providing for maximum borrowings up to \$1,200,000. Interest is payable monthly at the bank's rate of prime (3.25% at June 30, 2010) plus .5% or LIBOR (.039% at June 30, 2010) plus 2.0%. The line of credit expired December 31, 2009 and has been advanced on a month to month basis through June 30, 2010.

Subsequent to year-end the line of credit agreement was amended through a financing arrangement with the bank allowing for maximum borrowings up to \$650,000 which decreases to \$600,000 on March 31, 2011. Interest is payable monthly at the bank's rate of prime plus 2.5%. The line of credit matures on October 31, 2011 and is secured by substantially all of NRICS's assets.

5. Bond Payable

In June, 2007, the variable rate Rhode Island Health Education Building Corporation (RIHEBC) bond was issued to finance the cost of acquisition and renovation of an office building at 800 Clinton St., Woonsocket, for primary use as administration and clinical offices; finance the capital improvements to certain facilities in Providence, Johnston, and Pawtucket; refinance and refund existing indebtedness and retiring existing related mortgages with respect to certain projects located in Providence, Pawtucket and Woonsocket; and pay capitalized interest and certain costs of the issuance of the bond. Interest is payable on the bond monthly at a variable rate (.26% at June 30, 2010) determined by the bank. The bond is due in varying installments through June 2037 and is secured by NRICS's accounts receivable, certain real estate and the bank's letter of credit.

Scheduled maturities of bond repayment are as follows:

<u>Year Ending</u>	
2011	\$ 65,000
2012	65,000
2013	70,000
2014	75,000
2015	75,000
Thereafter	<u>2,790,000</u>
	<u>\$ 3,140,000</u>

NRI COMMUNITY SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
Year Ended June 30, 2010

6. Long-Term Debt

Long-term debt consisted of the following:

Note payable to bank, due in monthly installments of \$227 with interest payable at 9.75% through April 2011; secured by a vehicle.	\$	2,439
NRICS mortgage payable to bank, due in monthly installments of \$2,327, with interest payable at 5.14% through March 2011; secured by NRICS real estate.		279,009
NRICS mortgage payable to bank, due in monthly installments of \$4,608 with interest payable at 7.25%, through October 2016; secured by NRICS real estate.		449,046
Blackstone Valley Mental Health Realty Corporation, Inc. mortgage payable to HUD, due in monthly installments of \$3,009, with interest payable at 6.00%, with a final balloon payment of the outstanding balance June 2015; secured by real estate.		357,288
Roland M. Boucher Apartments, Inc. mortgage payable to HUD, due in monthly installments of \$24,052, with interest payable at 5.875% through June 2044; insured under Section 223(f) of the National Housing Act; secured by real estate.		<u>4,242,875</u>
Total long-term debt		5,330,657
Less current portion of long-term debt		<u>370,659</u>
Long-term debt, less current portion	\$	<u><u>4,959,998</u></u>

NRI COMMUNITY SERVICES, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
Year Ended June 30, 2010

Scheduled maturities of long-term debt are as follows:

<u>Year Ending</u>		
2011	\$	370,659
2012		95,109
2013		100,704
2014		108,121
2015		386,786
Thereafter		<u>4,269,278</u>
	\$	<u>5,330,657</u>

The mortgages and related agreements payable to HUD require the Organization to make monthly deposits for taxes, insurance and replacement of project assets. The agreements also contain certain other covenants and restrictions relating to, but not limited to, transfer and disposal of property, maintenance of insurance and methods of conducting project operations. Management believes they are in compliance with all covenants at June 30, 2010.

In addition, the mortgage provides for an escrow to be used for rehabilitation of the properties. Cash surplus, if any, is required to be deposited into a residual receipts reserve to be used for future operations of the project, with the approval of HUD.

Subsequent to year-end NRICS refinanced its mortgage payable which expires March 2011 in conjunction with the refinance of its line of credit (see Notes 4 and 5). The new term loan totaling \$726,859 requires monthly payments of \$12,114 of principal and interest thereon at the bank's rate of prime plus 2.5% through September 2015. The agreement contains provisions for potential reductions in interest to prime plus 1.75% if certain conditions are met. The future maturities of long-term debt have been adjusted to reflect the changes of the refinance agreement.

The financing agreement requires a guaranty of borrower's obligations by Blackstone Valley Mental Health Realty Corporation, Inc. (BVMHRC) and of BVMHRC obligations by NRICS mortgages. The financing agreement also requires security agreements and collateral assignments of leases and rents with respect to the real properties and improvements owned by NRICS and BVMHRC.

7. Note Payable - Rhode Island Housing

The Corporation received \$300,000 under an agreement with the Rhode Island Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH) for the purpose of distributing the proceeds from bonds issued by the State of Rhode Island to fund the acquisition and renovation of housing for mentally ill adults.

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Provisions of the agreement require that the Corporation purchase, renovate and equip five multi-family buildings to house at least 31 mentally ill adult residents of northern Rhode Island. The agreement also contains requirements for insurance and prohibitions against the sale, lease or other encumbrances of the properties for a period of 40 years after the beginning of the HUD mortgage.

At the end of the 40-year period described above (February 2032), Rhode Island Housing may exercise one of the following options: (1) extend the agreement for an additional 20 years; (2) terminate the agreement and require repayment of the entire amount or lesser amounts as determined by a formula based on the current market value of the properties at the time of termination; or, (3) terminate the agreement and not require repayment of the grant funds. The agreement does not call for interest or repayment of principal except as noted above. The total amount of the note has been discounted to its present value of \$49,109.

The Boucher Threshold Agreement will be modified by Rhode Island Housing to restrict an additional five (5) units for mentally ill adult residents of Northern Rhode Island to make up for the units lost by the sale of Cass Ave. during fiscal year ended June 30, 2009. Those units will be located at Sadwin Apartments and the term of affordability will be through 2032.

8. Refundable Grant

Russo Street Apartments, Inc. (RSA) d/b/a Albert P. Morin Apartments received a Thresholds grant from BHDDH through Rhode Island Housing and Mortgage Finance Corporation (RIHMFC) totaling \$239,300. Under the term of the grant agreement, RSA cannot sell, lease or encumber the property through August 2043 without BHDDH's permission. In August 2043, BHDDH may exercise one of three options: (1) extend the agreement co-terminus with the HUD subsidies; (2) require repayment of the greater of the amount of the grant or 20.43% of the fair market value of the property; or (3) terminate the agreement without repayment. The agreement does not call for interest or repayment of principal except as noted herein.

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9. Interest Rate Swap

In connection with the bond payable (Note 5), NRICS entered into two swap agreements with a bank. Under this agreement, NRICS pays interest to the bank at 4.241%. The swap agreement terminates on June 1, 2037. The net realized loss on the contract for the year ended June 30, 2010 was approximately \$174,700 and is included in interest expense on the consolidating statement of operations and changes in net assets. The approximate unrealized loss on the contract was approximately \$162,600 from the change in the swap contract fair value for the year ended June 30, 2009 and is included as a separate item after the changes in unrestricted operating assets on the consolidating statement of activities and changes in net assets.

10. Temporarily Restricted Net Assets

Temporarily restricted net assets relate to HUD financed properties that have restrictions as part of their financing agreements. These properties must be used in conformance with HUD rules and regulations for the period of their financing, usually 40 years. At that time, the properties revert to the owners or a refinancing will take place (see Note 6 and 7).

11. Lease Income

The following leases are in effect as of the report date:

<u>Lessee</u>	<u>Expiration</u>	<u>Options</u>	<u>Annual Base Rent</u>
Tenant A	12/2014	N/A	\$ 39,600
Tenant B	6/2013	N/A	\$ 70,675

The leases include provisions for reimbursement of real estate taxes and common area maintenance. The leases also contain provisions for annual increases to the base rent at varying intervals.

The following represents the cost and accumulated depreciation of the land and building held for lease. These assets are included as part of property and equipment on the consolidating balance sheet.

Cost	\$ 2,652,287
Less accumulated depreciation	<u>294,125</u>
Total	<u>\$ 2,358,162</u>

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Future minimum rental income is as follows:

<u>Year Ending</u>	
2012	\$ 111,000
2013	114,000
2014	118,000
2015	47,000
2015	<u>24,000</u>
	<u>\$ 414,000</u>

12. Employee Retirement Plans

NRICS maintains a retirement plan under Internal Revenue Code Section 403(b) (the Plan). The Plan covers all employees who have completed six months of service. NRICS may match employee contributions up to a maximum of 2% of the employees' base wages. As of January 1, 2010, NRICS has temporarily suspended the employer match. Employer contributions under the Plan for the year ended June 30, 2010 were approximately \$57,800.

13. Commitments and Contingencies

The Organization had the following commitments and contingencies:

Operating Lease Commitments

NRICS leases various office spaces, equipment with maintenance and supplies and vehicles under operating leases, which expire at various dates through July 2014.

Approximate aggregate minimum lease payments under these operating leases are as follows:

<u>Year Ending</u>	
2011	\$ 54,000
2012	46,000
2013	27,000
2014	<u>1,000</u>
	<u>\$ 128,000</u>

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NRICS also leases parking spaces and other equipment on a month-to-month basis. The total expense incurred under the foregoing and other operating leases and monthly rental agreements amounted to approximately \$73,700 for the year ended June 30, 2010.

Employment Agreement

The Organization has an employment agreement with its CEO's covering the period through January 2013. This agreement stipulates the responsibilities and duties related to the Organization. The agreement provides for a transition process beginning January 2012 and a severance payment based on annual performance during the period January 2007 until termination of the agreement.

Litigation

The Organization is, from time to time, subject to legal proceedings and claims that arise in the normal course of business. In the opinion of management, the amount of ultimate liability with respect to actions outstanding as of June 30, 2010 will not have a material adverse effect on the Organization's financial position or its result of operations.

14. Donated Services, Materials and Facilities

NRICS receives donated services from a variety of unpaid volunteers assisting NRICS in administrative and program services. No amounts have been recognized in the accompanying consolidating statement of activities and changes in net assets, as the criteria for recognition of such volunteer effort under authoritative guidance has not been satisfied.

NRICS occupies three BHDDH facilities under lease agreements for either minimal rent or no rent being paid by NRICS. NRICS has estimated the fair value of the annual rent at approximately \$283,000 for the year ended June 30, 2010. The fair value of rent is included in contributions and program expenses in the consolidating statement of activities and changes in net assets.

15. Related Party Transactions

NRICS is the sponsoring organization for all of the HUD Borrowers Corporations, as such program services are provided to eligible tenants.

The debt agreements of the Affiliates (Note 6) are secured by each respective Affiliate's assets. NRICS is not liable nor at risk of loss relating to these agreements; except as described in Note 6.

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NRICS has an arrangement with Riverwood Mental Health Services, a non-profit mental health agency, wherein NRICS is co-sponsor of East Bay Residential Option, Inc., a HUD 811 Borrowers Corporation which has acquired, rehabilitated and rents 10 units of housing on Main Street in Warren, Rhode Island. NRICS is an equal co-sponsor and has 50% equity potential at the end of the contract period. The project cost at the end of the renovation was approximately \$1.5 million. There are no direct liabilities to NRICS to repay back the debt, therefore, no assets or liabilities associated with this project are included on the NRICS financial statements at June 30, 2010.

18. Supplemental Disclosures of Cash Flow Information

Cash paid for interest for the year ended June 30, 2010 was approximately \$547,800.

19. Subsequent Event

As of July 1, 2010, the by-laws of Community Staffing Resources, Inc. were amended to reflect a merger of the organization with Monday Morning Industries, Inc. This merger was voted and agreed upon by the mutual members of the board of directors of both Organizations. The surviving organization is Community Staffing Resources, Inc., which will be responsible for developing and managing supported employment services.