



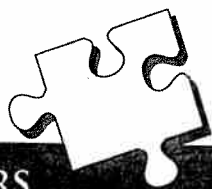
FAMILY SERVICE  
OF MORRIS COUNTY

***FAMILY SERVICE OF MORRIS COUNTY***

***FINANCIAL STATEMENTS***

***DECEMBER 31, 2009***

***(with comparative totals for 2008)***



CHANGING LIVES FOR NEARLY 200 YEARS

ONE PIECE AT A TIME

FAMILY SERVICE OF MORRIS COUNTY  
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DECEMBER 31, 2009  
(with comparative totals for 2008)

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Independent Auditors' Report

To the Board of Managers of  
Family Service of Morris County  
Morristown, NJ

We have audited the accompanying statement of financial position of Family Service of Morris County (a nonprofit organization) as of December 31, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Family Service of Morris County's 2008 financial statements and in our report dated May 14, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These 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 financial statements referred to above present fairly, in all material respects, the financial position of Family Service of Morris County as of December 31, 2009 and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

April 22, 2010  
Mt. Arlington, New Jersey

*Nisivoccia & Company LLP*

FAMILY SERVICE OF MORRIS COUNTY  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2009 and 2008

<u>ASSETS</u>	December 31,	
	2009	2008
Cash and cash equivalents	\$ 432,694	\$ 344,641
Accounts receivable, net of allowance for doubtful accounts of \$10,605 and \$2,428 in 2009 and 2008, respectively	59,848	28,251
Grants receivable	199,256	297,284
Investments, at fair market value	1,911,627	1,557,357
Prepaid expenses	43,813	16,030
Capital project and campaign:		
Cash and cash equivalents for capital project-restricted	5,702	104,947
Pledges receivable - capital campaign, net	77,151	192,767
Land, buildings and equipment, net	6,078,338	6,298,415
Deposits		5,000
 Total assets	 \$ 8,808,429	 \$ 8,844,692
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable, accrued expenses and agency funds	\$ 125,106	\$ 110,530
Mortgage payable		115,235
Security deposit payable	1,800	
Deferred revenue	1,200	
Total liabilities	128,106	225,765
Net assets:		
Unrestricted:		
Operations	1,362,999	1,359,674
Endowment	1,599,273	1,225,985
Capital project activities	5,067,701	5,145,154
Temporarily restricted	641,845	879,609
Permanently restricted	8,505	8,505
Total net assets	8,680,323	8,618,927
 Total liabilities and net assets	 \$ 8,808,429	 \$ 8,844,692

See accompanying notes to financial statements

FAMILY SERVICE OF MORRIS COUNTY  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2009  
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2008)

	Unrestricted			Temporarily Restricted		Total
	Operations	Endowment	Capital Projects	Capital Project	Other	
Revenue, support and investments:						
Revenue:						
Program fees	\$ 815,136		\$ 815,136			\$ 815,136
United Way	339,033		339,033			460,387
County grants	849,322		849,322			854,223
Federal grants	13,270		13,270			67,545
State financial assistance	67,545		67,545			10,349
Miscellaneous	10,349		10,349			662,980
Support:						257,584
Contributions	377,980		377,980		\$ 285,000	662,980
Special event revenue	257,584		257,584			257,584
Net assets released from restrictions (due to satisfaction of program restrictions)	297,570		297,570		(297,570)	
Total revenue and support	3,027,789		3,027,789		(12,570)	3,015,219
Functional operating expenses:						
Counseling and community services	2,708,006		2,708,006			2,708,006
Management and general	407,560		407,560			412,418
Development program	301,172		301,172			299,992
Total operating expenses	3,416,738		3,416,738			3,579,117
Net operating activity	(388,949)		(388,949)		(12,570)	(401,519)
Investment activities:						
Investment income	\$ 44,062		44,062		2,031	2,031
Net realized and unrealized gains (losses) on investments	319,111		319,111		2,223	2,223
Transfers in (out) for operations	(123,909)		8,217		(8,217)	(8,217)
Net assets released from restrictions due to satisfaction of donor restrictions	53,864		53,864		(53,864)	(53,864)
Funds transfer	(38,820)		(38,820)		38,820	38,820
Net investment activity	132,126		386,434		(19,007)	(19,007)
Capital project activities:						
Capital campaign contributions				\$ 6,412		6,412
Gain on sale of easement rights		\$ 100,000	100,000			100,000
Increase in pledge allowance		(10,924)	(10,924)			(10,924)
Capital project expenses						(33,372)
Transfers in (out) for capital project depreciation	260,148		(260,148)			(19,841)
Transfers in (out) from capital projects		118,980	(118,980)			
Net assets released from restrictions for payment of capital project costs				(212,599)		(212,599)
Net capital project activity	260,148		301,675	(206,187)		95,488
Total change in net assets	3,325		373,288	(77,453)	(31,577)	61,396
Net assets, beginning of year	1,359,674		1,225,985	5,145,154	879,609	9,684,240
Net assets, end of year	1,362,999		1,599,273	5,067,701	82,853	8,618,927

See accompanying notes to financial statements

FAMILY SERVICE OF MORRIS COUNTY  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2009  
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2008)

	Program Services		Supporting Services		Total	
	Counseling and Community Service	Management and General	Development/Community Relations	Total	2009	2008
Salaries and fringe benefits:	\$ 257,049	\$ 192,219	\$ 120,869	\$ 313,088	\$ 570,137	\$ 534,282
Administration	1,358,987				1,358,987	1,476,004
Professional	148,958	71,231	35,754	106,985	255,943	236,972
Support/clerical	100,454	14,994	8,914	23,908	124,362	116,697
Health insurance	64,715	10,010	5,951	15,961	80,676	127,983
Retirement, group life and LTD	156,698	23,039	13,697	36,736	193,434	190,281
Payroll taxes	11,960	1,785	1,061	2,846	14,806	16,267
Workers' compensation						
Total salaries and fringe benefits	2,098,821	313,278	186,246	499,524	2,598,345	2,698,486
Program expenses:						
Program consultation	113,372				113,372	115,741
Professional fees	20,162	3,009	1,789	4,798	24,960	18,355
Payroll service	9,275	1,384	823	2,207	11,482	15,408
Supplies	15,361	2,293	1,363	3,656	19,017	21,721
Telephone	23,547	3,515	2,090	5,605	29,152	27,700
Postage	11,904	1,777	1,056	2,833	14,737	15,426
Equipment rental and maintenance	11,444	1,708	1,015	2,723	14,167	13,771
Printing	6,723	4,229	5,036	9,265	15,988	33,039
Office rental	13,850				13,850	12,714
Insurance	41,945	6,261	3,722	9,983	51,928	54,260
Utilities	34,162	3,474	3,722	7,196	41,358	42,847
Repair and maintenance	50,632	5,149	5,517	10,666	61,298	56,718
Travel	25,846	113	225	338	26,184	21,140
Conferences, conventions and professional education	2,629	1,879	3,709	5,588	8,217	22,816
Dues	9,309	1,390	826	2,216	11,525	14,062
Special event expense					62,420	59,624
Interest, service charges and fees		25,492		25,492	25,492	30,346
Scholarships	560		2,227	2,227	2,787	3,000
Public relations/marketing	8,329	1,243	739	1,982	10,311	2,908
Other	399,050	62,916	96,279	159,195	558,245	17,241
Total program expenses	210,135	31,366	18,647	50,013	260,148	281,794
Depreciation and amortization						
Total expenses	\$ 2,708,006	\$ 407,560	\$ 301,172	\$ 708,732	\$ 3,416,738	\$ 3,579,117

See accompanying notes to financial statements

FAMILY SERVICE OF MORRIS COUNTY  
STATEMENT OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets:	\$ 61,396	\$ (1,065,313)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	260,148	281,794
Change in allowance for doubtful accounts	8,177	(1,301)
Change in pledge discount allowance	(6,411)	(8,674)
Change in allowance for pledges	10,924	33,372
Net unrealized (gains) loss on long-term investments	(425,495)	394,328
Net realized loss on long-term investments	104,161	291,142
Changes in operating assets and liabilities:		
Accounts receivable	(39,774)	(5,098)
Grants receivable	98,028	(87,443)
Prepaid expenses	(27,783)	3,468
Pledges receivable - capital campaign	111,104	279,295
Deposits	5,000	(5,000)
Accounts payable, accrued expenses and agency funds	14,575	(68,302)
Security deposit payable	1,800	
Deferred revenue	1,200	(300)
Net cash provided by operating activities	<u>177,050</u>	<u>41,968</u>
Cash flows from investing activities:		
Purchase of equipment	(40,071)	(778)
Proceeds from sale of investments	880,389	1,470,217
Purchase of investments	(869,413)	(1,310,201)
Net cash provided by (used in) investing activities	<u>(29,095)</u>	<u>159,238</u>
Cash flows from financing activities:		
Interest and dividends reinvested	(43,912)	(54,370)
Principal payments on mortgage payable	(115,235)	(271,741)
Net cash used in financing activities	<u>(159,147)</u>	<u>(326,111)</u>
Net decrease in cash and cash equivalents	(11,192)	(124,905)
Cash and cash equivalents, beginning of year	<u>449,588</u>	<u>574,493</u>
Cash and cash equivalents, end of year	<u>\$ 438,396</u>	<u>\$ 449,588</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 645</u>	<u>\$ 19,841</u>

FAMILY SERVICE OF MORRIS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008

Note 1 - General

Family Service of Morris County (Family Service) is a private, not-for-profit organization dedicated to strengthening the community by empowering individuals and families to meet and overcome life's challenges. Founded in Morristown in 1813, Family Service's professional counseling and preventive services are offered at its program center in Morristown and at its three adult daycare centers located throughout Morris County.

The Board of Managers sets direction and develops resources to support the programs of Family Service while professional staff and volunteers carry out such programs. Funding for the support of Family Service is primarily generated through contributions from the United Way, foundations, individuals, bequests, public grants and client service fee revenue.

Note 2 - Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. A summary of the significant accounting policies followed by Family Service of Morris County in the preparation of the accompanying financial statements is set forth below:

Basis of Presentation

Family Service prepares its financial statements in accordance with FASB Accounting Standards Codification, *Accounting for Contributions Received and Made, and Financial Statements of Not-for-Profit Organizations*. *Financial Statements of Not-for-Profit Organizations* establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are received. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. *Accounting for Contributions Received and Made* requires that unconditional promises to give be recorded as receivables and revenue and requires the organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions.

Unrestricted net assets are resources representing the portion of expendable funds available for support of Family Service's programs and general operations. These resources are not subject to donor-imposed restrictions, however the Board may designate the use of funds for particular purposes. The Board of Managers has established designated funds for Endowment and Capital Improvement purposes. In 2009, the Board of Managers has designated \$100,000 received from the sale of easement rights for use for capital improvement projects.

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met, either by actions of Family Service and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Temporarily restricted net assets are comprised of the following as of December 31, 2009 and 2008:

FAMILY SERVICE OF MORRIS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)

Note 2 - Summary of Significant Accounting Policies (Cont'd)

<u>Restriction</u>	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
"Plays for Living" series	\$ 8,507	\$ 6,634
For use in future period	85,000	108,865
Scholarships	17,561	15,669
Children's services	7,372	7,372
Special purposes	5,000	5,000
Professional Education	10,730	18,847
Innovative Social Service Programs	250,000	250,000
Annual Award	4,690	4,312
Early Childhood Education Program and Time Out Adult Care Program	140,000	108,750
Senior Services	30,000	
Capital improvements		10,000
Health and Wellness Program		25,000
Endowment Renewal		30,000
Doane Fund	131	120
New building construction	82,854	289,040
	<u>\$ 641,845</u>	<u>\$ 879,609</u>

Net assets released from time and use restrictions for the years ended December 31, 2009 and 2008 amounted to \$564,033 and \$624,675, respectively.

Permanently restricted net assets are assets subject to donor-imposed stipulations to be maintained permanently by Family Service. Generally, the donors of these assets permit Family Service to use all or part of the income earned on any related investments for general or specific purposes. Permanently restricted net assets are restricted for the following purposes:

Income earned on the investment held in the scholarship account is restricted for the purpose of granting scholarships by Family Service. As specified by the donor, a minimum balance of \$5,955 is to be maintained in perpetuity. At December 31, 2009 and 2008, the fair market value of the investment which includes net appreciation and income reinvested was \$23,516 and \$21,624, respectively.

Income earned on the investment held in the Doane Memorial account is restricted for the purpose of purchasing books for use by Family Service. As specified by the donor, a minimum balance of \$750 is to be maintained in perpetuity. At December 31, 2009 and 2008, the fair market value of the investment was \$750.

Income earned on the investment held in the Fritschman Memorial account is restricted for the purpose of sponsoring the "Plays for Living" series in the community once a year. As specified by the donor, a minimum balance of \$1,800 is to be maintained in perpetuity. At December 31, 2009 and 2008, the fair market value of the investment which includes net appreciation and income reinvested was \$10,307 and \$8,434, respectively.

FAMILY SERVICE OF MORRIS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)

Note 2 - Summary of Significant Accounting Policies (Cont'd)

Revenue and Support Recognition

Contributions are recognized as revenue and receivables when they are received or unconditionally pledged. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Family Service 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if the donor restriction is satisfied during the accounting period in which the gift was received, the gifts are reported as unrestricted contributions in the statement of activities. Restricted gains and investment income whose restrictions are satisfied in the same accounting period are reported as unrestricted income.

Family Service accounts for contract and grant revenue, which are exchange transactions, in the statement of activities to the extent that expenses have been incurred for the purpose specified by the grantor during the period. In applying this concept, the legal and contractual requirements of each individual program are used as guidance. All amounts not expended in accordance with the grant or contract are recorded as a liability to the grantor as Family Service does not maintain any equity in the grant or contract. Additionally, funds received in advance of their proper usage are accounted for as deferred revenue in the statement of financial position.

Cash and Cash Equivalents

Family Service considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Family Service follows FASB Accounting Standards Codification *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Family Services accounts for donated investments at their fair value as of the date of contribution. Investment income or loss (including interest and dividends) and gain on sale of investments are included in the statement of activities unless the income or loss is restricted by donor or law.

Land, Building and Equipment

Land, building and equipment are recorded at cost when purchased, or at fair value at date of gift, when donated. Major renewals and betterments are charged to the land, building and equipment accounts; maintenance and minor repairs and replacements, which do not improve or extend the life of the respective assets, are expensed currently.

FAMILY SERVICE OF MORRIS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)

Note 2 - Summary of Significant Accounting Policies (Cont'd)

Land, Building and Equipment (Cont'd)

Depreciation is provided for by the straight-line method over the estimated useful lives of the assets. Proceeds from the sale of land, building and equipment, if unrestricted, are transferred to unrestricted net assets, or, if restricted, to deferred amounts restricted for land, building and equipment acquisitions.

Family Service continually evaluates whether current events or circumstances warrant adjustments to the carrying value or estimated useful lives of fixed assets in accordance with FASB Accounting Standards Codification *Accounting for the Impairment or Disposal of Long-Lived Assets*. There were no impairments charged to operations for the years ended December 31, 2009 and 2008.

Accounts Receivable, Grants Receivable, Pledges Receivable and Allowances for Uncollectible Accounts

Accounts receivable, grants receivable and pledges receivable are stated at the amounts management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after December 31, 2009 through the date of these financial statements. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no nonrecognized subsequent events that require additional disclosure.

Fair Value of Financial Instruments

Family Service uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures on a recurring basis.

The Fair Value Measurements Topic of the FASB Accounting Standards Codification defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements. The disclosures required under this topic have been included in this note.

*Fair Value Hierarchy*

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

FAMILY SERVICE OF MORRIS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)

Note 2 - Summary of Significant Accounting Policies (Cont'd)

Fair Value of Financial Instruments (Cont'd)

*Fair Value Hierarchy (cont'd)*

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that Family Service 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 asset or liability, either directly or indirectly.

Level 3 inputs are derived from techniques in which one or more of the inputs are unobservable inputs for the asset or liability.

*Determination of Fair Value*

Under the Fair Value Measurements Topic of the FASB Accounting Standards Codification, Family Service bases its fair value on 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. It is Family Service's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon management's own estimates, are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future value.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value:

The carrying amounts of cash and cash equivalents, accounts receivable, grants receivable, other current assets, accounts payable, accrued expenses and other current liabilities approximate fair value because of the short term maturity of these instruments.

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 certain reported amounts of assets and liabilities and disclosures of contingent assets and contingent liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

FAMILY SERVICE OF MORRIS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)

Note 2 - Summary of Significant Accounting Policies (Cont'd)

Income Taxes

Family Service is a not-for-profit corporation as described in Section 501(c) (3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501 (a) of the Code. Family Service is also exempt under Title 15 of the State of New Jersey *Corporations and Associations Not for Profit Act*. Accordingly, no provision for federal or state income taxes has been presented in the accompanying financial statements.

Effective December 15, 2009, Family Service adopted FASB Accounting Standards Codification, *Accounting for Uncertainty in Income Taxes*. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition as they relate to those tax positions. The cumulative effect of this change in accounting principle was immaterial.

Family Service does not expect a significant increase or decrease to the total amounts of unrecognized tax positions during the fiscal year ended December 31, 2009. However, Family Service is subject to regular audit by tax authorities. Family Service believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

Family Service files income tax returns in the United States federal and State of New Jersey jurisdictions. Family Service is no longer subject to income tax examinations for New Jersey state income taxes before 2005 or for United States federal income taxes before 2006.

Functional Expenses

Expenses are charged to each program based on direct expenditures incurred. Any program expenditures not directly chargeable are allocated to a program based on units of service, support costs are allocated based on salary costs and infrastructure costs are allocated based on square footage. Fund raising includes the direct cost of special events and the allocation of employees' salaries and other cost involved in special events based on methods considered by management to be reasonable.

Deferred Revenue

Deferred revenue consists of amounts received in advance of services being performed which will be recognized as income in future periods when the services are performed. At December 31, 2009 deferred revenue was \$1,200.

FAMILY SERVICE OF MORRIS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)

Note 2 - Summary of Significant Accounting Policies (Cont'd)

Total Columns

Total columns are presented to facilitate financial analysis. Data in these columns do not present financial position, results of operations and changes in net assets in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with Family Service's 2008 financial statements from which the summarized information was derived.

Note 3 - Investments- Board designated Endowment (UPMIFA state) after implementation of FASB Accounting Standards Codification (ASC)958-205-45

Family Service's endowment consists of approximately 6 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Managers to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Managers to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

As of December 31, 2009, the Board of Managers had designated \$1,599,273 of unrestricted net assets as a general endowment fund to support the mission of Family Service. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

The Board of Managers of the Family Service has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Family Service classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Family Service in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, Family Service considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Agency, and (7) Family Service's investment policies.

*Investment Return Objectives, Risk Parameters and Strategies.* Family Service has adopted investment and spending policies, approved by the Board of Managers, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. To achieve that objective, Family Service has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of up to 5%, while growing the fund if possible. Accordingly, Family Service expects its endowment assets, over time, to produce an average rate of return of

FAMILY SERVICE OF MORRIS COUNTY  
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Note 3 - Investments- Board designated Endowment (UPMIFA state) after implementation of FASB Accounting Standards Codification (ASC)958-205-45 (Cont'd)

approximately 7.4 percent annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

*Spending Policy.* Family Service has a spending policy of appropriating for distribution each year up to 5 percent of its board-designated endowment fund's average fair value of the prior 5 years through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, Family Service considered the long-term expected investment return on its endowment. Accordingly, over the long term, the Agency expects the current spending policy to allow its general endowment fund to grow at an average of 2.4 percent annually. This is consistent with Family Service's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Endowment net asset composition by type of fund as of December 31, 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanent Restricted</u>	<u>Total Endowment Assets</u>
Donor-restricted endowment funds		\$ 303,849	\$ 8,505	\$ 312,354
Board-designated endowment funds	\$1,599,273			1,599,273
Total funds	<u>\$1,599,273</u>	<u>\$ 303,849</u>	<u>\$ 8,505</u>	<u>\$1,911,627</u>

Changes in endowment net asset as of December 31, 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanent Restricted</u>	<u>Total Endowment Assets</u>
Endowment net assets, beginning of year	\$1,225,985	\$ 322,867	\$ 8,505	\$1,557,357
Investment income	44,062	2,020		46,082
Net appreciation (depreciation)	319,111	2,223		321,334
Satisfaction of donor restrictions	53,864	(53,864)		-
Amounts appropriated for expenditure	(123,909)	(8,217)		(132,126)
Transfer in capital projects	118,980			118,980
Funds transfer	(38,820)	38,820		-
Endowment net assets, end of year	<u>\$1,599,273</u>	<u>\$ 303,849</u>	<u>\$ 8,505</u>	<u>\$1,911,627</u>

FAMILY SERVICE OF MORRIS COUNTY  
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Note 4 - Capital Campaign and New Building Construction

Family Service entered into a Capital Campaign in the last quarter of 2003 for the new building construction project. As of December 31, 2006, the active capital campaign had been completed. In 2008, Family Service received contributions and pledges of \$13,150, which is presented in the financial statements net of a discount. Family Service secured a construction loan through Valley National Bank as of March 23, 2006. The construction loan was converted to a traditional loan on March 23, 2007. Amounts not yet expended for the capital project are included in temporarily restricted net assets.

Pledges which represent unconditional promises to give at December 31, 2009 and 2008 and are considered level 3 in the hierarchy of fair value measurements are as follows:

	<u>2009</u>	<u>2008</u>
Pledges expected to be collected in:		
Less than one year	\$ 127,801	\$ 137,829
One to five years	-	106,849
	<u>127,801</u>	<u>244,678</u>
Less: 4% discount on promises to give	-	(6,411)
Allowance for doubtful accounts	<u>(50,650)</u>	<u>(45,500)</u>
Net unconditional promises to give	<u>\$ 77,151</u>	<u>\$ 192,767</u>

Note 5 - Investments

Investments are stated at readily determinable fair values and are comprised of the following categories:

	<u>December 31, 2009</u>		
	<u>Cost</u>	<u>Market Value (Level I)</u>	<u>Unrealized Appreciation (Depreciation)</u>
Equity mutual funds/common stock	\$ 1,129,907	\$ 1,254,784	\$ 124,877
Fixed income mutual funds	558,012	563,047	5,035
Money market	93,046	93,046	
Certificates of deposit	750	750	
	<u>\$ 1,781,715</u>	<u>\$ 1,911,627</u>	<u>\$ 129,912</u>
	<u>December 31, 2008</u>		
	<u>Cost</u>	<u>Market Value (Level I)</u>	<u>Unrealized Appreciation (Depreciation)</u>
Equity mutual funds/common stock	\$ 1,313,281	\$ 1,059,544	\$ (253,737)
Fixed income mutual funds	373,450	332,917	(40,533)
Money market	164,146	164,146	
Certificates of deposit	750	750	
	<u>\$ 1,851,627</u>	<u>\$ 1,557,357</u>	<u>\$ (294,270)</u>

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Note 5 - Investments (Cont'd)

Investment activity is as follows:

	December 31,	
	2009	2008
Beginning balance	\$ 1,557,357	\$ 2,348,473
Purchases	869,413	1,310,201
Sales	(868,435)	(1,454,356)
Investment fees	(11,954)	(15,861)
Interest and dividends reinvested	43,912	54,370
Realized loss	(104,161)	(291,142)
Unrealized gain (loss)	425,495	(394,328)
	<u>\$ 1,911,627</u>	<u>\$ 1,557,357</u>

Investment return is summarized as follows:

	December 31,	
	2009	2008
Interest and dividend income	\$ 43,912	\$ 54,370
Realized loss	(104,161)	(291,142)
Unrealized gain (loss)	425,495	(394,328)
	<u>\$ 365,246</u>	<u>\$ (631,100)</u>

Note 6 - Land, Building and Equipment

Land, building and equipment and their related estimated useful lives at December 31, 2009 and 2008 are comprised of the following:

<u>Assets</u>	Estimated Useful Life (Years)	2009	2008
Land		\$ 1,066,352	\$ 1,066,352
Building and improvements	5 to 40	5,346,136	5,330,819
Equipment	3 to 10	315,323	297,533
Furniture and fixtures	5 to 15	359,752	352,788
		<u>7,087,563</u>	<u>7,047,492</u>
Less: accumulated depreciation		(1,009,225)	(749,077)
		<u>\$ 6,078,338</u>	<u>\$ 6,298,415</u>

FAMILY SERVICE OF MORRIS COUNTY  
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Note 6 - Land, Building and Equipment (Cont'd)

Depreciation expense for the years ended December 31, 2009 and 2008 totaled \$260,148 and \$281,794, respectively.

Note 7 - Mortgage Payable

Mortgage payable at December 31, 2009 and 2008 is comprised of the following:

	2009	2008
<p>Mortgage payable to Valley National Bank for the construction of the new building. The amount available to draw was \$4,000,000. The amount drawn on the loan was \$2,041,890. The note carried a floating interest rate equal to 1.90% above the one month LIBOR rate on the unpaid balance of the note. The construction note was subsequently converted to a 25 year adjustable note on March 23, 2007 with Valley National Bank. The note bears an interest rate of 6.875% with a term of 25 years. The interest will reset after 10 years. This mortgage was paid in full during 2009.</p>	<p>\$ -</p>	<p>\$ 115,235</p>
	<p>\$ -</p>	<p>\$ 115,235</p>

Note 8 - Operating Leases

Family Service leases certain office space relative to its operations under operating leases and two copiers and a postage meter. The following is a schedule, by years, of future minimum lease payments required under operating leases that have an initial lease term in excess of one year as of December 31, 2009:

<u>Years Ended</u>	<u>Amount</u>
2010	\$ 7,980
2011	7,980
2012	1,995
	<p>\$ 17,955</p>

Rent expense under all operating leases was \$13,850 and \$12,714 in 2009 and 2008, respectively.

FAMILY SERVICE OF MORRIS COUNTY  
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Note 9 - Pension Plan

Family Service had a defined contribution pension plan covering substantially all eligible employees. Family Service's contribution was equal to 8% of the salary of participating employees through November 30, 2008. Effective December 1, 2008, Family Service converted the plan over to a 403(b) thrift plan (classified as a defined contribution plan). Family Service's contribution is equal to 4% of the salary of participating employees. Pension expense for the years ended December 31, 2009 and 2008 is \$76,656 and \$114,702, respectively.

Note 10 - Donated Services

The Board of Managers makes contributions of time relative to general management and operations of Family Service. Additionally, a significant number of unpaid volunteers have made significant contributions of their time to the programs sponsored by Family Service. The value of this contributed time is not reflected in these financial statements since it does not meet the requirements for recognition under generally accepted accounting principles.

Note 11 - Family Loan Pool

Family Service discontinued the Family Loan Program as of February 28, 2003. The Board of Managers authorized the loan program to be transferred to NORWESCAP, another social service agency. As of December 31, 2007, loans of \$1,301 that were outstanding are deemed uncollectible. During the 2007 fiscal year, Family Service requested instruction from the Family Loan donors as to their wishes regarding the disposition for the remaining balance of \$70,224 maintained by Family Service. During 2008, management completed its survey for donor intentions and, accordingly, at December 31, 2008, the entire balance of the Family Loan Pool was deemed unrestricted.

Note 12- Cash, Credit and Funding Risks

Family Service maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. Family Service has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk related to cash.

As reflected in the Statement of Activities, Family Service has several funding sources including the United Way, individual foundations and contractual fee for service agreements with various governmental entities. Although no funding source is guaranteed, Family Service believes that based on past history and the continued monitoring of the diverse funding sources by management, there is not a significant risk to the agency's funding streams in total.

FAMILY SERVICE OF MORRIS COUNTY  
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Note 13- Bank Line of Credit

Family Service entered into a commercial security agreement on January 29, 2009 with Investors Savings Bank for a \$150,000 revolving line of credit. The line of credit has a floating interest rate of one percent above the prime rate as published in the Wall Street Journal with an interest floor of 5.5%. The line is secured by all business assets perfected by a UCC-1 filing statement. The line has a maturity date of January 15, 2011. No amounts were outstanding from this credit facility at December 31, 2009.

Note 14 - Grant Award

During 2009 Family Services was awarded a reimbursement grant from the U.S. Department of Housing and Urban Development (HUD) in the amount \$190,000. Upon performing services and complying with certain guidelines as outlined in the grant Family Service can request reimbursement. During 2009 Family Service received \$13,270 for reimbursement of services performed in accordance with the terms of the grant.

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200 Valley Road Suite 300  
Mount Arlington, NJ 07856-1320  
Phone: 973-328-1825  
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Lawrence Business Park  
11 Lawrence Road  
Newton, NJ 07860  
Phone: 973-383-6699  
Fax: 973-383-6555

April 22, 2010

To the Board of Managers of  
Family Service of Morris County

We have audited the financial statements of Family Service of Morris County ("Family Service") for the year ended December 31, 2009, and have issued our report thereon dated April 22, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 2, 2009. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Family Service, are described in Note 2 to the financial statements. During 2009 Family Service fully adopted FASB Accounting Standards Codification, *Fair Value Measurements* which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. In addition Family Service adopted FASB Accounting Standards Codification, *Accounting for Uncertainty in Income Taxes* which prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. The application of existing policies was not changed during 2009. We noted no transactions entered into by Family Service of Morris County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for uncollectible accounts and pledges. We evaluated the key factors and assumptions used to develop the estimated allowances in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of depreciation is based on estimated useful lives of assets. We evaluated the key factors and assumptions used to develop the estimated useful lives of assets in determining that it is reasonable in relation to the financial statements taken as a whole.

##### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

Significant Audit Findings (Cont'd)

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated April 22, 2010.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Family Service's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Family Service's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Managers and management of Family Service of Morris County and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

  
Nisivoccia & Company LLP