

FAMILY SERVICE OF MORRIS COUNTY

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2010 AND 2009

FAMILY SERVICE OF MORRIS COUNTY

DECEMBER 31, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Managers
Family Service of Morris County
Morristown, New Jersey

We have audited the accompanying statement of financial position of Family Service of Morris County (the "Organization") as of December 31, 2010, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Family Service of Morris County as of December 31, 2009 and for the year then ended, were audited by other auditors whose report, dated April 22, 2010, expressed an unqualified opinion on those financial statements. The prior year's summarized comparative information included in the statements of functional expenses has been derived from Family Service of Morris County's December 31, 2009 financial statements.

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 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 the 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, 2010, and the changes in its net assets and in its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2011, on our consideration of Family Service of Morris County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Family Service of Morris County, taken as a whole. The accompanying schedule of expenditures of federal and state awards, on page 19, is presented for purposes of additional analysis as required by the New Jersey Office of Management and Budget Circular Letter 04-04 Compliance Supplement, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


Certified Public Accountants

April 26, 2011
Livingston, New Jersey

FAMILY SERVICE OF MORRIS COUNTY
STATEMENTS OF FINANCIAL POSITION

ASSETS	December 31,	
	2010	2009
ASSETS:		
Cash and cash equivalents	\$ 339,623	\$ 432,694
Accounts receivable, net of allowance for doubtful accounts of \$6,199 in 2010 and \$10,605 in 2009	98,941	59,848
Grants receivable	254,366	199,256
Investments, at fair value	2,055,218	1,911,627
Prepaid expenses	40,336	43,813
Capital project and campaign		
Cash and cash equivalents for capital project	-	5,702
Pledges receivable - capital campaign, net	16,700	77,151
Total Assets	<u>2,805,184</u>	<u>2,730,091</u>
PROPERTY AND EQUIPMENT, NET	<u>5,904,409</u>	<u>6,078,338</u>
Total Assets	<u><u>\$ 8,709,593</u></u>	<u><u>\$ 8,808,429</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts payable and accrued expenses	\$ 125,062	\$ 125,106
Security deposit payable	1,800	1,800
Cash held on behalf of others	39,074	-
Deferred revenue	11,200	1,200
Total Liabilities	<u>177,136</u>	<u>128,106</u>

COMMITMENTS AND CONTINGENCIES

NET ASSETS		
Unrestricted - operations	1,603,965	1,373,974
Unrestricted - endowment	1,679,774	1,588,298
Unrestricted - capital project activity	4,996,576	5,067,701
Temporarily restricted	243,637	641,845
Permanently restricted	8,505	8,505
Total Net Assets	<u>8,532,457</u>	<u>8,680,323</u>
Total Liabilities and Net Assets	<u><u>\$ 8,709,593</u></u>	<u><u>\$ 8,808,429</u></u>

FAMILY SERVICE OF MORRIS COUNTY
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	Unrestricted				Temporarily Restricted			Permanently Restricted	Total	
	Operations	Board Designated Endowment	Capital Project	Total	Capital Project	Other	Total		2010	2009
REVENUE AND SUPPORT:										
Revenue:										
Program fees	\$ 885,920	\$ -	\$ -	\$ 885,920	\$ -	\$ -	\$ -	\$ -	\$ 885,920	\$ 815,136
United Way	288,744	-	-	288,744	-	-	-	-	288,744	339,033
County grants and contracts	880,865	-	-	880,865	-	-	-	-	880,865	849,322
Federal financial assistance	36,419	-	-	36,419	-	-	-	-	36,419	13,270
State financial assistance	77,996	-	-	77,996	-	-	-	-	77,996	67,545
Miscellaneous	21,756	-	-	21,756	-	-	-	-	21,756	10,349
Support:										
Contributions, grants and bequests	396,160	-	-	396,160	-	214,000	214,000	-	610,160	662,980
Special event revenue	299,289	-	-	299,289	-	-	-	-	299,289	257,584
Net assets released from restrictions due to satisfaction of program restrictions	280,000	-	-	280,000	-	(280,000)	(280,000)	-	-	-
Total Revenue and Support	3,167,149	-	-	3,167,149	-	(66,000)	(66,000)	-	3,101,149	3,015,219
OPERATING EXPENSES:										
Counseling and community services	2,745,953	-	-	2,745,953	-	-	-	-	2,745,953	2,708,006
Management and general	362,706	-	-	362,706	-	-	-	-	362,706	396,585
Development/community relations	343,499	-	-	343,499	-	-	-	-	343,499	301,172
Total Operating Expenses	3,452,158	-	-	3,452,158	-	-	-	-	3,452,158	3,405,763
Net Operating Activity	(285,009)	-	-	(285,009)	-	(66,000)	(66,000)	-	(351,009)	(390,544)
INVESTMENT ACTIVITIES										
Investment income	-	42,939	-	42,939	-	2,024	2,024	-	44,963	35,118
Net realized and unrealized gains on investments	-	164,239	-	164,239	-	2,144	2,144	-	166,383	321,334
Transfers in (out) for operations	115,702	(115,702)	-	-	-	-	-	-	-	-
Net assets released from restrictions due to satisfaction of program restrictions	270,223	-	-	270,223	-	(270,223)	(270,223)	-	-	-
Total Investment Activity	385,925	91,476	-	477,401	-	(266,055)	(266,055)	-	211,346	356,452
CAPITAL PROJECT ACTIVITIES:										
Capital campaign contributions	-	-	-	-	-	-	-	-	-	6,412
Gain on sale of easement rights	-	-	-	-	-	-	-	-	-	100,000
Increase in pledge allowance	-	-	(8,203)	(8,203)	-	-	-	-	(8,203)	(10,924)
Transfers in (out) for capital project depreciation	129,075	-	(129,075)	-	-	-	-	-	-	-
Net assets released from restrictions for payment of capital project costs	-	-	66,153	66,153	(66,153)	-	(66,153)	-	-	-
Total Capital Project Activity	129,075	-	(71,125)	57,950	(66,153)	-	(66,153)	-	(8,203)	95,488
CHANGES IN NET ASSETS	229,991	91,476	(71,125)	250,342	(66,153)	(332,055)	(398,208)	-	(147,866)	61,396
NET ASSETS - Beginning of year	1,373,974	1,588,298	5,067,701	8,029,973	82,853	558,992	641,845	8,505	8,680,323	8,618,927
NET ASSETS - End of year	\$ 1,603,965	\$ 1,679,774	\$ 4,996,576	\$ 8,280,315	\$ 16,700	\$ 226,937	\$ 243,637	\$ 8,505	\$ 8,532,457	\$ 8,680,323

The accompanying notes are an integral part of these financial statements.

FAMILY SERVICE OF MORRIS COUNTY
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2010 AND 2009

	Counseling and Community Services	Supporting Services			Total	
		Management and General	Development/ Community Relations	Total	2010	2009
Salaries and Fringe Benefits:						
Administration	\$ 156,769	\$ 175,058	\$ 142,548	\$ 317,606	\$ 474,375	\$ 570,137
Professional	1,496,828	-	-	-	1,496,828	1,358,987
Support/clerical	130,288	72,987	36,108	109,095	239,383	255,943
Health insurance	107,260	14,915	10,742	25,657	132,917	124,362
Retirement, group life and LTD	59,443	8,265	5,953	14,218	73,661	80,676
Payroll taxes	160,352	22,297	16,059	38,356	198,708	193,434
Workers' compensation	12,169	1,692	1,219	2,911	15,080	14,806
Total Salaries and Fringe Benefits	2,123,109	295,214	212,629	507,843	2,630,952	2,598,345
Program Expenses:						
Program consultation	155,196	-	-	-	155,196	113,372
Professional fees	20,929	2,910	2,096	5,006	25,935	24,960
Payroll service	8,476	1,179	848	2,027	10,503	11,482
Supplies	19,852	2,760	1,988	4,748	24,600	19,017
Telephone	20,398	2,836	2,043	4,879	25,277	29,152
Postage	8,553	1,189	857	2,046	10,599	14,737
Equipment rental and maintenance	10,893	1,515	1,091	2,606	13,499	14,167
Printing	5,506	3,348	7,416	10,764	16,270	15,988
Office rental	17,620	-	-	-	17,620	13,850
Insurance	43,575	6,059	4,364	10,423	53,998	51,928
Utilities	45,562	4,633	4,964	9,597	55,159	41,358
Repairs and maintenance	48,732	4,958	5,309	10,267	58,999	61,298
Travel	18,904	-	131	131	19,035	26,184
Conferences, conventions and professional education	4,676	2,860	312	3,172	7,848	8,217
Dues	7,249	1,008	726	1,734	8,983	11,525
Special event expense	-	-	75,881	75,881	75,881	62,420
Interest, service charges and fees	-	6,471	-	6,471	6,471	14,517
Public relations/ marketing	1,418	-	4,285	4,285	5,703	2,787
Other	10,821	1,504	1,084	2,588	13,409	10,311
Total Program Expenses	448,359	43,230	113,395	156,625	604,984	547,270
Depreciation	174,485	24,262	17,474	41,736	216,222	260,148
Total Expenses	\$ 2,745,953	\$ 362,706	\$ 343,499	\$ 706,205	\$ 3,452,158	\$ 3,405,763

The accompanying notes are an integral part of these financial statements.

FAMILY SERVICE OF MORRIS COUNTY
STATEMENTS OF CASH FLOWS

CASH FLOWS PROVIDED BY (USED FOR):	Year Ended December 31,	
	2010	2009
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ (147,866)	\$ 61,396
Adjustments to reconcile changes in net assets to net cash (used for) provided by operating activities:		
Depreciation	216,222	260,148
Change in allowance for doubtful accounts	(4,406)	8,177
Change in pledge discount allowance	-	(6,411)
Change in allowance for pledges	(45,650)	10,924
Net unrealized gains on investments	(80,715)	(425,495)
Net realized (gains) losses on investments	(85,668)	104,161
Changes in certain assets and liabilities:		
Accounts receivable	(34,687)	(39,774)
Grants receivable	(55,110)	98,028
Prepaid expenses	3,477	(27,783)
Pledges receivable - capital campaign	106,101	111,104
Security deposit	-	5,000
Accounts payable and accrued expenses	(44)	14,575
Security deposits payable	-	1,800
Cash held for others	39,074	-
Deferred revenue	10,000	1,200
Net Cash (Used for) Provided by Operating Activities	<u>(79,273)</u>	<u>177,050</u>
<u>INVESTING ACTIVITIES:</u>		
Purchase of equipment	(42,293)	(40,071)
Proceeds from sale of investments	977,512	880,389
Purchase of investments	(954,720)	(913,325)
Net Cash Used for Investing Activities	<u>(19,501)</u>	<u>(73,007)</u>
<u>FINANCING ACTIVITIES:</u>		
Draws on line of credit	60,000	50,000
Payments on line of credit	(60,000)	(50,000)
Principal payments on mortgage payable	-	(115,235)
Net Cash Used for Financing Activities	<u>-</u>	<u>(115,235)</u>
NET DECREASE IN CASH	(98,773)	(11,192)
CASH AND CASH EQUIVALENTS:		
Beginning of year	438,396	449,588
End of year	<u>\$ 339,623</u>	<u>\$ 438,396</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the year for interest	<u>\$ 787</u>	<u>\$ 645</u>

The accompanying notes are an integral part of these financial statements.

FAMILY SERVICE OF MORRIS COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 1 - NATURE OF ORGANIZATION:

Family Service of Morris County (the "Organization") 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, the Organization'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 the Organization while professional staff and volunteers carry out such programs. Funding for the support of the Organization is primarily generated through public grants, client service fee revenue, contributions from individuals, corporations, and foundations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America under the *FASB Accounting Standards Codification*.

Financial Statement Presentation:

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets are net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization 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.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

FAMILY SERVICE OF MORRIS COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Cash Equivalents:

For financial statement purposes, certificates of deposit and money market funds with an original maturity of three months or less are considered to be cash equivalents.

Accounts Receivable:

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Organization charges uncollectible accounts receivable to operations when determined to be uncollectible. The allowance for uncollectible receivables has been reviewed by management and it has been determined to be adequate.

Fair Value:

Fair value measurements are defined as the amount 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. There are three defined hierarchical levels based on the quality of inputs used that directly relate to the amount of subjectivity associated with the determination of fair value.

The fair value hierarchy defines the three levels as follows:

- Level 1:** Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2:** Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3:** Valuations based on unobservable inputs are used when little or no market is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

Investments:

Investment income is presented net of investment advisory/management fees in the statements of activities and changes in net assets. All investment income is credited directly to unrestricted net assets unless otherwise restricted by the donor. All capital appreciation/depreciation earned on investments is reported as a change in unrestricted net assets unless otherwise restricted by the donor. All investments are carried at fair value with the related gains and losses included in the statement of activities and changes in net assets.

FAMILY SERVICE OF MORRIS COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Property and Equipment:

Purchased property and equipment is capitalized at cost. Donated assets are capitalized at the estimated fair value using Level 2 inputs, at time of receipt. For the years ended December 31, 2010 and 2009, donated assets of \$4,555 and \$1,975, respectively, were received. Property and equipment are depreciated using the straight-line method over the estimated useful lives ranging from 3 to 40 years. In the absence of donor-imposed restrictions on the use of the asset, gifts or long-lived assets are reported as unrestricted support.

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, 2010 and 2009, deferred revenue amounted to \$11,200 and \$1,200, respectively.

Revenue Recognition:

Funds received from various state and local agencies, as well as other donors, represent grants awarded to the Organization to provide program services. Revenue with respect to these awards is recognized to the extent of expenses incurred under the award terms. Upon completion or expiration of a grant, unexpended funds are not available to the Organization and must be returned to the awarding agency or the grant must be modified in accordance with the terms of the grant or grantor.

Contributions:

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Contributions with restrictions that are met in the same reporting period as they are received are reported as unrestricted support.

Income Taxes:

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not liable for federal and state income taxes.

FAMILY SERVICE OF MORRIS COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Income Taxes: (Continued)

The Organization follows accounting standards that provide clarification on accounting for uncertainty in income taxes recognized in the Organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, disclosure and transition. Tax returns for certain years are subject to audit by federal and state jurisdictions. At December 31, 2010, there are no significant income tax uncertainties that are expected to have a material impact on the Organization's 2010 financial statements.

Functional Allocation of Expenses:

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. The Organization's management allocated management and general expenses based upon management's best estimates.

Use of Estimates:

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Information:

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Subsequent Events:

The Organization has evaluated its subsequent events and transactions occurring after December 31, 2010 through April 26, 2011, the date that the financial statements were available to be issued. In February 2011, the Organization acquired Madison Day Care Center (annual revenues and expenditures of approximately \$225,000). Madison Day Care Center changed its organizational structure, with Family Service of Morris County as the sole member of the corporation. The operations of Madison Day Care will be included with the Organization from date of acquisition. Other than noted above, the Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

FAMILY SERVICE OF MORRIS COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Reclassifications:

Certain amounts have been reclassified in the 2009 financial statements to conform to the 2010 presentation.

NOTE 3 - PROPERTY AND EQUIPMENT:

	December 31,	
	2010	2009
Land	\$ 1,066,352	\$ 1,066,352
Building and improvements	5,355,185	5,346,137
Equipment	345,390	315,323
Furniture and fixtures	362,930	359,752
	<u>7,129,857</u>	<u>7,087,564</u>
Less: accumulated depreciation	(1,225,448)	(1,009,226)
Property and Equipment, Net	<u>\$ 5,904,409</u>	<u>\$ 6,078,338</u>

Depreciation expense for the years ended December 31, 2010 and 2009 totaled \$216,222 and \$260,148, respectively.

NOTE 4 - CAPITAL CAMPAIGN AND NEW BUILDING CONSTRUCTION:

The Organization 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. The Organization 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 and was paid in full during the fiscal year ended December 31, 2009. Pledges remaining on the campaign, which represent unconditional promises to give, are as follows:

	December 31,	
	2010	2009
Pledges expected to be collected in:		
Less than one year	\$ 21,700	\$ 127,801
Allowance for doubtful accounts	(5,000)	(50,650)
Net Unconditional Promises to Give	<u>\$ 16,700</u>	<u>\$ 77,151</u>

FAMILY SERVICE OF MORRIS COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 5 - INVESTMENTS:

FAIR VALUE MEASUREMENTS
AS OF DECEMBER 31, 2010

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Mutual funds:				
Equity funds	\$ 1,347,375	\$ -	\$ -	\$ 1,347,375
Fixed income funds	621,017	-	-	621,017
Money market	54,836	-	-	54,836
Certificates of deposit	-	31,990	-	31,990
	\$ 2,023,228	\$ 31,990	\$ -	\$ 2,055,218

FAIR VALUE MEASUREMENTS
AS OF DECEMBER 31, 2009

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Mutual funds:				
Equity funds	\$ 1,254,784	\$ -	\$ -	\$ 1,254,784
Fixed income funds	563,047	-	-	563,047
Money market	93,046	-	-	93,046
Certificates of deposit	-	750	-	750
	\$ 1,910,877	\$ 750	\$ -	\$ 1,911,627

NOTE 6 - OPERATING LEASES:

The Organization leases certain space relative to its operations and office equipment under operating leases. The Organization is obligated for future minimum lease payments under all leases, as follows:

Years Ended	Amount
2011	\$ 10,620
2012	4,635
2013	2,640
2014	1,540
	\$ 19,435

FAMILY SERVICE OF MORRIS COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 7 - ENDOWMENT FUNDS:

The Organization's permanently restricted net assets consist of three separate funds. These funds include donor restricted funds functioning as endowments funds. Net assets associated with endowment funds, are classified and reported based on the existence of donor-imposed restrictions. The Organization's 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 the Organization. As specified by the donor, a minimum balance of \$5,955 is to be maintained in perpetuity. At December 31, 2010 and 2009, the fair market value of the investment which includes net appreciation and income reinvested was \$26,036 and \$23,516, 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, 2010 and 2009, the fair market value of the investment was \$887 and \$881, respectively.

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, 2010 and 2009, the fair market value of the investment which includes net appreciation and income reinvested was \$11,434 and \$10,307, respectively.

The Board of Managers' interpretation requires 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, the Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. 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 the Organization.

FAMILY SERVICE OF MORRIS COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 7 - ENDOWMENT FUNDS: (Continued)

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the programs
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (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 Organization
- (7) The investment policies of the Organization

The Board of Managers' primary objective, in this regard, is to add value and minimize risk in managing the assets of the fund while providing a hedge against inflation into the future. It is the intent of the Board of Managers' to maintain the endowment and utilize the total return (income plus capital change) to further the mission of the Organization. In recognition of the prudence required of fiduciaries, reasonable diversification of quality investment securities will be sought where possible, knowing that fluctuating rates of return are a characteristic of the investment market and performance cycles cannot be accurately predicted. The funds may be held in individual securities or mutual funds, may be comprised of domestic and international securities, and will be further diversified into asset classes by their market capitalization.

The Organization may distribute up to 5% of the endowment investment portfolio value each year, as approved by the Finance Committee. Distributions will be paid and performance will be measured on the basis of average endowment values at the start of each year for the previous five years. The base on which the payouts are calculated will add the most recent year end valuation and delete the earliest year end valuation so that a five year rolling average is maintained.

Endowment Net Asset Composition by Type of Fund as of December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 29,852	\$ 8,505	\$ 38,357
Board-designated endowment funds	1,679,774	-	-	1,679,774
	<u>\$ 1,679,774</u>	<u>\$ 29,852</u>	<u>\$ 8,505</u>	<u>\$ 1,718,131</u>

FAMILY SERVICE OF MORRIS COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 7 - ENDOWMENT FUNDS: (Continued)

Changes in Endowment Net Assets, including Board Designated Funds, for the year ended December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	\$ 1,588,298	\$ 26,199	\$ 8,505	\$ 1,623,002
Investment return:				
Investment income	42,939	1,730	-	44,669
Net appreciation (realized and unrealized)	164,239	1,923	-	166,162
Total Investment Return	207,178	3,653	-	210,831
Contributions	-	-	-	-
Appropriation for expenditure	(115,702)	-	-	(115,702)
Endowment Net Assets, End of year	\$ 1,679,774	\$ 29,852	\$ 8,505	\$ 1,718,131

Endowment Net Asset Composition by Type of Fund as of December 31, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 26,199	\$ 8,505	\$ 34,704
Board-designated endowment funds	1,588,298	-	-	1,588,298
	\$ 1,588,298	\$ 26,199	\$ 8,505	\$ 1,623,002

FAMILY SERVICE OF MORRIS COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 7 - ENDOWMENT FUNDS: (Continued)

Changes in Endowment Net Assets, including Board Designated Funds, for the year ended December 31, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	\$ 1,225,985	\$ 22,434	\$ 8,505	\$ 1,256,924
Investment return:				
Investment income	33,087	-	-	33,087
Net appreciation (realized and unrealized)	319,111	3,765	-	322,876
Total Investment Return	352,198	3,765	-	355,963
Contributions	134,024	-	-	134,024
Appropriation for expenditure	(123,909)	-	-	(123,909)
Endowment Net Assets, End of year	\$ 1,588,298	\$ 26,199	\$ 8,505	\$ 1,623,002

NOTE 8 - LINE OF CREDIT:

The Organization has a \$150,000 line of credit available through a bank, expiring January 15, 2013. Bank advances on the credit line are payable on demand and carry an interest rate of 1% over the Wall Street Journal Prime Rate (3.25% at December 31, 2010) with an interest floor of 5.5%. No amounts were outstanding from this line of credit at December 31, 2010 and 2009. The line of credit is secured by all business assets.

NOTE 9 - PENSION PLAN:

The Organization maintains a 403(b) thrift plan (classified as a defined contribution plan). The Organization's contribution is equal to 4% of the salary of participating employees. Pension expense for the years ended December 31, 2010 and 2009 was \$65,989 and \$76,656, respectively.

FAMILY SERVICE OF MORRIS COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 10 - DONATED SERVICES:

The Board of Managers makes contributions of time relative to general management and operations of the Organization. Additionally, a significant number of unpaid volunteers have made contributions of their time to the programs sponsored by the Organization. The value of this contributed time is not reflected in these financial statements as it does not meet the requirements of recognition under accounting principles generally accepted in the United States of America. The Organization also receives donated design, printing and building services. The Organization is not able to place a fair value on these contributions and, as a result, no amounts have been recorded in the statements of activities and changes in net assets.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS:

The following temporarily restricted net assets are available for the following purposes:

	December 31,	
	2010	2009
Doane Fund	\$ 137	\$ 131
“Plays for Living” series	9,634	8,507
Scholarships	20,081	17,561
Children’s services	-	7,372
Special purposes	-	5,000
Professional education	2,892	10,730
Innovative social service programs	-	250,000
Annual quality of life award	5,193	4,690
For use in future periods	90,000	85,000
Early Childhood Education Program and Time Out Adult Care Program	75,000	140,000
Senior services	24,000	30,000
New building construction	16,700	82,854
	<u>\$ 243,637</u>	<u>\$ 641,845</u>

Net assets released from time and use restrictions for the years ended December 31, 2010 and 2009 amounted to \$616,376 and \$564,033, respectively.

FAMILY SERVICE OF MORRIS COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 12 - GRANT AWARD:

During fiscal year 2009, the Organization was awarded a reimbursement grant from the United States Department of Housing and Urban Development (HUD) in the amount of \$190,000. Upon performing services and complying with certain guidelines as outlined in the grant, the Organization can request reimbursement. In the years ended December 31, 2010 and 2009, the Organization had received \$36,419 and \$13,270, respectively, for reimbursement of services performed in accordance with the terms of the grant.

NOTE 13 - CONCENTRATIONS OF CREDIT RISK:

The Organization receives a large portion of its funding from various federal, state and local governmental agencies. The operations of the Organization are subject to the administrative directives, rules and regulations of state and local regulatory agencies. Such administrative directives, rules and regulations are subject to changes that may occur because of inadequate funding with little notice to pay for the related costs, including the additional administrative burden, to comply with a change.

The Organization maintains cash balances at several financial institutions. At times, cumulative balances may exceed the insured limit.

FAMILY SERVICE OF MORRIS COUNTY
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2010

State Grant or Program Title	Federal CFDA Number	Grant Number	Grant Amount	Grant Period	Current Year Disbursements/ Expenditures
NEW JERSEY STATE					
DEPARTMENT OF HUMAN SERVICES					
Friends of the Blind/Older Blind (SCILS)	N/A	16PG10N	\$ 77,996	1/1/10 - 12/31/10	\$ 77,996
U.S. Department of Housing and Urban Development FY 2009 EDI-SPECIAL PROJECT	14.251	B-09-SP-NJ 0233	190,000	11/18/09 - 12/31/12	36,419
Total Federal and State Assistance					\$ 114,415

FAMILY SERVICE OF MORRIS COUNTY
NOTE TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2010

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal and state awards includes the state and federal grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and New Jersey OMB Circular Letter 04-04. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Managers
Family Service of Morris County
Morristown, New Jersey

We have audited the financial statements of Family Service of Morris County (the "Organization") as of and for the year ended December 31, 2010, and have issued our report thereon dated April 26, 2011. 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 of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Managers, management and the relevant governmental agencies and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

April 26, 2011
Livingston, New Jersey

FAMILY SERVICE OF MORRIS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010

I. Summary of Auditors' Results

Financial Statements

The auditors' report issued on the basic financial statements of Family Service of Morris County was an unqualified opinion.

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified that
 are not considered to be material
 weaknesses? _____ Yes X No

Noncompliance material to financial
statements noted? _____ Yes X No

Auditee qualified as a low-risk auditee? _____ Yes X No

Family Service of Morris County did not qualify as a low-risk auditee because this is the first audit conducted in accordance with *Government Auditing Standards*.

II. Financial Statement Findings

NONE

III. Compliance Finding

NONE

IV. Prior Audit Findings

NONE