

Family Services, Inc.

Financial Statements

December 31, 2009



O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

Independent Auditor's Report

Board of Directors Family Services, Inc.

We have audited the accompanying statement of financial position of Family Services, Inc., (the "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 the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Services, Inc., at December 31, 2009, and the changes 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.

The Organization is economically dependent upon Families First New York, Inc. to fund its working capital needs.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The December 31, 2008 information has been derived from the Organization's December 31, 2008 financial statements, and in our report dated May 26, 2009, we expressed an unqualified opinion on those financial statements.

O'Connor Davies Munns & Dobbins, LLP

Harrison, New York
September 21, 2010

Family Services, Inc.
Statement of Financial Position
December 31, 2009

ASSETS

Cash	\$ 150
Investments	6,442
Accounts receivable, net	52,849
Contracts and grants receivable	847,231
Promises to give, net	4,852
Prepaid expense	25,948
Security deposit	2,584
Property, plant and equipment, net	<u>1,891,986</u>
	<u>\$ 2,832,042</u>

LIABILITIES AND NET ASSETS

Liabilities

Cash overdraft	\$ 13,199
Accounts payable and accrued expenses	372,717
Due to related parties	337,712
Refundable advances	<u>27,956</u>
Total Liabilities	<u>751,584</u>

Net Assets

Unrestricted

Designated for operations	102,298
Investment in property, plant and equipment	1,891,986
Board designated asset replacement reserve	<u>32,100</u>
Total Unrestricted	2,026,384

Temporarily restricted

Total Net Assets

<u>54,074</u>
<u>2,080,458</u>
<u>\$ 2,832,042</u>

See notes to financial statements

Family Services, Inc.
Statement of Activities
Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUE			
Contracts and grants	\$ 4,858,108	\$ -	\$ 4,858,108
Client service fees	273,741	-	273,741
Contributions	168,425	87,941	256,366
Special events	99,385	-	99,385
Interest and dividend income	217	-	217
Other income	41,274	-	41,274
Realized and unrealized loss on investments	1,086	-	1,086
Net assets released from restriction	<u>88,448</u>	<u>(88,448)</u>	<u>-</u>
Total Operating Revenue	<u>5,530,684</u>	<u>(507)</u>	<u>5,530,177</u>
EXPENSES			
Program Services			
Case management	4,396,485	-	4,396,485
Supporting Services			
Management and general	875,343	-	875,343
Fundraising	<u>145,655</u>	<u>-</u>	<u>145,655</u>
Total Expenses Before Depreciation	5,417,483	-	5,417,483
Depreciation - program related	<u>125,739</u>	<u>-</u>	<u>125,739</u>
Total Expenses	<u>5,543,222</u>	<u>-</u>	<u>5,543,222</u>
Change in Net Assets Before Transfers of Net Assets to Related Parties	(12,538)	(507)	(13,045)
Contributions of net assets to related party	<u>(11,630)</u>	<u>-</u>	<u>(11,630)</u>
Change in Net Assets	(24,168)	(507)	(24,675)
NET ASSETS			
Beginning of period	<u>2,050,552</u>	<u>54,581</u>	<u>2,105,133</u>
End of period	<u>\$ 2,026,384</u>	<u>\$ 54,074</u>	<u>\$ 2,080,458</u>

See notes to financial statements

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

	Program Services	Supporting Services			Total
	Case Management	Management and General	Fundraising	Total Supporting Services	
PERSONNEL					
Salaries	\$ 2,864,586	\$ 51,314	\$ 49,084	\$ 100,398	\$ 2,964,984
Fringe benefits	<u>626,236</u>	<u>10,806</u>	<u>8,879</u>	<u>19,685</u>	<u>645,921</u>
Total Personnel Costs	3,490,822	62,120	57,963	120,083	3,610,905
OTHER THAN PERSONNEL COSTS					
Professional fees	488	47,826	-	47,826	48,314
Supplies and office expenses	128,853	3,231	961	4,192	133,045
Contractual services	234,052	5,521	16,432	21,953	256,005
Travel and meetings	118,014	5,729	119	5,848	123,862
Dues and subscriptions	3,667	1,760	1,518	3,278	6,945
Insurance	30,188	2,054	-	2,054	32,242
Telephone	48,056	3,160	1,595	4,755	52,811
Postage	5,148	65	283	348	5,496
Rent and occupancy	223,968	2,118	1,059	3,177	227,145
Building and equipment repairs	17,510	12,359	883	13,242	30,752
Interest	19,783	-	-	-	19,783
Advertising	15,179	-	42	42	15,221
Events and fieldtrips	17,057	-	35,302	35,302	52,359
Bad debt expense	43,700	-	-	-	43,700
Insurance claims expense	-	32,500	-	32,500	32,500
Management fees	-	696,900	-	696,900	696,900
Development fees	<u>-</u>	<u>-</u>	<u>29,498</u>	<u>29,498</u>	<u>29,498</u>
Total Expenses Before Depreciation	4,396,485	875,343	145,655	1,020,998	5,417,483
Depreciation	<u>125,739</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,739</u>
Total Expenses	<u>\$ 4,522,224</u>	<u>\$ 875,343</u>	<u>\$ 145,655</u>	<u>\$ 1,020,998</u>	<u>\$ 5,543,222</u>

See notes to financial statements

Family Services, Inc.
Statement of Cash Flows
Year Ended December 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (24,675)
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	125,739
Realized and unrealized gain on investments	(1,086)
Bad debt expense	43,700
Change in operating assets and liabilities	
Accounts receivable	(41,406)
Contracts and grants receivable	94,757
Promises to give	8,139
Prepaid expense	(494)
Security deposit	600
Cash overdraft	(20,176)
Accounts payable and accrued expenses	(134,336)
Due to related parties	2,691
Refundable advances	<u>(28,045)</u>
Net Cash from Operating Activities	25,408

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(20)
Purchases of equipment	<u>(25,388)</u>
Net Cash from Investing Activities	(25,408)

Net Change in Cash -

CASH

Beginning of period	<u>150</u>
End of period	<u><u>\$ 150</u></u>

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest	\$ 19,783
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See notes to financial statements

Family Services, Inc.

Notes to Financial Statements

1. Organization

Family Services, Inc. (the "Organization") is incorporated under the Not-For-Profit Corporation Law of the State of New York and makes family, individual and group counseling available to persons of all ages. The Organization promotes personal awareness and sensitivity in the context of family relationships, and fosters public and private services relative to individual and family welfare throughout Dutchess County and neighboring counties.

The Organization is a charitable organization that is exempt from Federal taxes under Section 501(c)(3) of the Internal Revenue Code. Under this ruling from the IRS, the Organization is not a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Basis of Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Unrestricted amounts are those currently available at the discretion of the board for use in the Organization's operations. 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 amounts are donor imposed restrictions to be maintained in perpetuity by the Organization. The Organization has no permanently restricted net assets.

Investments

The Organization follows Financial Accounting Standards Board (FASB) guidance on *Fair Value Measurements* which established a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest priority and include assets with quoted prices in an active market. As of and for the year ended December 31, 2009 all of the Organization's investments, bought, sold and held were valued using Level 1 inputs and consisted of mutual funds. Investments in mutual funds are valued at fair value. Unrealized gains and losses are included in the statement of activities.

Family Services, Inc.

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Revenue Recognition

The Organization conducts activities under grants and contracts received from various federal, state, local and private sources. Revenue is recognized when grant and contract conditions are fulfilled, such as when program expenses for the grant or contract are incurred. Client service fees are recognized as revenue when earned

Accounting for Uncertainty in Income Taxes

The Organization recognizes the effect of tax positions only when they are more likely than not of being sustained. Management is not aware of any violation of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income tax. The Organization is no longer subject to audits by applicable taxing jurisdictions for periods prior to 2006.

Promises to Give

Promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows net of discount. The discount is amortized using an effective yield over the expected collection year of the receivables.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 and all expenditures that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost, if purchased, or at fair value on the date of acquisition, if received through donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to forty years.

The Organization capitalizes furniture and equipment purchased with grant funds. The grantor agencies reserve the right to request a return of these assets in the event the funded programs are discontinued.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services based on benefits received.

Advertising

Advertising costs are expensed as incurred.

Family Services, Inc.

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Donated Services

The Organization receives significant amounts of services donated by local volunteers. No amounts have been reflected in the financial statements for these donated services because they do not meet the criteria for recognition.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is September 21, 2010.

3. Accounts Receivable

Accounts receivable at December 31, 2009 is net of an allowance of \$71,291. The allowance for doubtful accounts was calculated using estimated collectible percentages based on historical data.

4. Promises to Give

Promises to give receivable consist of the following at December 31, 2009:

Due within one year	\$ 6,462
Allowance for uncollectible promises	(1,603)
Discount to present value	<u>(7)</u>
	<u>\$ 4,852</u>

Promises to give are discounted at 2.75%.

5. Property, Plant and Equipment

Property, plant and equipment consists of the following at December 31, 2009:

Land	\$ 50,824
Buildings and buildings improvements	535,241
Furniture and equipment	638,726
Vehicles	26,441
Leasehold improvements	<u>2,339,274</u>
	3,590,506
Accumulated depreciation	<u>(1,698,520)</u>
	<u>\$ 1,891,986</u>

Family Services, Inc.

Notes to Financial Statements

6. Pension Plan

The Organization has a noncontributory defined contribution plan covering substantially all full-time employees. Contributions to the plan are calculated as a percentage of the employee's regular salary for the year. Pension expense amounted to \$92,435 for the year ended December 31, 2009.

7. Lease Commitments

The Organization has various lease agreements for office equipment, office space and vehicles which expire at various times through 2011. Rent expense totaled \$240,104 for the year ended December 31, 2009. Future minimum lease payments required under these agreements as of December 31, 2009 are as follows:

2010	\$ 20,917
2011	<u>2,036</u>
	<u>\$ 22,953</u>

8. Economic Dependency

The Organization received approximately 93% of its operating revenue from federal, state and local agencies. This revenue is received through a highly diversified portfolio of government contracts. The Organization is economically dependent on these funds to continue these programs.

9. Related Party Transactions

Families First New York, Inc. ("FFNY") is the sole member of the Organization and is also the sole member of Big Brothers Big Sisters of Ulster County, Inc., Hudson Valley Mental Health, Inc. and the Family Partnership Center, Inc. The related party transactions during the year resulted in revenue and expenses of \$2,291 and \$920,864, respectively. These amounts do not include \$11,630 contributed by the Organization to the Family Partnership Center, Inc for capital expenditures.

10. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2009:

Ulster Prevention Program	\$ 13,555
Youth programs	14,961
Battered women's services	21,800
Other programs	<u>3,758</u>
	<u>\$ 54,074</u>

Net assets released by incurring expenses satisfying the time and purpose restrictions specified by donors were \$88,448.

Family Services, Inc.

Notes to Financial Statements

11. Unrestricted Net Assets

Unrestricted net assets consist of the following at December 31, 2009:

Operations	\$ 102,298
Investment in property and equipment	1,891,986
Board designated asset replacement reserve	<u>32,100</u>
	<u>\$ 2,026,384</u>

12. Concentration of Credit Risk

The Organization provides program services that are covered under various payor agreements. Receivables from such arrangements are included in contracts and grants accounts receivable balance at December 31, 2009. Collections are expected in the normal course of business.

13. Commitments and Contingencies

The Organization and its affiliates, pursuant to a \$1.6 million credit facility, participate in a zero balance banking arrangement whereby their cash is swept/advanced daily by FFNY based upon each entities' cash needs. The excess cash that is swept along with cash short falls are reflected as a related party receivable/payable. FFNY draws on this line of credit based upon its consolidated banking needs. The Organization, its affiliates and FFNY are guarantors of all borrowings under the line. The line of credit bears interest at the LIBOR rate plus 375 basis points and is renewed annually. The line is collateralized by substantially all of the assets of the Parent and its affiliates except real property. The total amount owed on this line of credit as of December 31, 2009 was \$409,000. The organization has not recorded a liability for the guarantee, as in the opinion of management it is not probable that the Organization will be required to perform under the guarantee.

Amounts received or receivable from grantor agencies are subject to audit and adjustment principally by Federal, State and local governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable program. Management does not believe the possible outcome of these audits will have a material adverse effect on the Organization's financial statements

The Organization, in the normal course of business, is exposed to various potential claims and assessments which in the opinion of management, in the event of an unfavorable outcome, would be covered by insurance.

Family Services, Inc.

Supplementary Information

December 31, 2009

Family Services, Inc.
Schedule of Financial Positions
December 31,

	2009	2008
ASSETS		
Cash	\$ 150	\$ 150
Investments	6,442	5,336
Accounts receivable, net	52,849	55,143
Contracts and grants receivable	847,231	941,988
Promises to give, net	4,852	12,991
Prepaid expense	25,948	25,454
Security deposit	2,584	3,184
Property, plant and equipment, net	1,891,986	1,992,337
	\$ 2,832,042	\$ 3,036,583
 LIABILITIES AND NET ASSETS		
Liabilities		
Cash overdraft	\$ 13,199	\$ 33,375
Accounts payable and accrued expenses	372,717	507,053
Due to related parties	337,712	335,021
Refundable advances	27,956	56,001
Total Liabilities	751,584	931,450
Net Assets		
Unrestricted		
Designated for operations	102,298	14,485
Investment in property, plant and equipment	1,891,986	1,992,337
Board designated asset replacement reserve	32,100	43,730
Total Unrestricted	2,026,384	2,050,552
Temporarily restricted	54,074	54,581
Total Net Assets	2,080,458	2,105,133
	\$ 2,832,042	\$ 3,036,583