

Metropolitan Family Services

Audited Financial Statement
June 30, 2009

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

Board of Directors
Metropolitan Family Services
Chicago, Illinois

We have audited the accompanying Statements of Financial Position of Metropolitan Family Services (the Agency) as of June 30, 2009 and 2008, and the related Statements of Activities, Functional Expenses, and Cash Flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide 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 Metropolitan Family Services at June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2009 on our consideration of Metropolitan Family Services' 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.

McGladrey & Pullen, LLP

Chicago, Illinois
October 20, 2009

Metropolitan Family Services

Statements of Financial Position
June 30, 2009 and 2008

	2009	2008
Assets		
Cash and cash equivalents	\$ 116,024	\$ 174,809
Receivables:		
Government grants	2,919,790	2,845,548
Fund raising pledges	896,623	1,042,632
Other	9,657	714,122
Investments	31,923,576	42,671,289
Beneficial interest in irrevocable perpetual trusts	11,872,276	13,724,433
Prepaid expenses	165,997	219,292
Bond issuance costs, less accumulated amortization 2009 \$88,795; 2008 \$80,116	170,884	179,563
Property and equipment, less accumulated depreciation 2009 \$13,530,520; 2008 \$12,898,191	17,638,723	17,893,939
Total assets	\$ 65,713,550	\$ 79,465,627
Liabilities		
Line of credit	\$ 1,250,000	\$ 1,450,000
Accounts payable and accrued expenses	2,525,170	2,131,708
Accrued pension expense	6,603,641	3,959,996
Notes payable	1,784,850	2,377,483
Bonds payable	12,700,000	12,700,000
Deferred revenue	21,000	60,611
Funds held in custody for others	136,234	116,436
Interest rate swap	1,605,879	549,311
Total liabilities	26,626,774	23,345,545
Net Assets		
Unrestricted	(4,884,811)	36,673,667
Temporarily restricted	26,532,819	155,490
Permanently restricted	17,438,768	19,290,925
Total net assets	39,086,776	56,120,082
Total liabilities and net assets	\$ 65,713,550	\$ 79,465,627

See Notes to Financial Statements.

Metropolitan Family Services

Statements of Activities
Years Ended June 30, 2009 and 2008

	2009			
	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total Agency
Operating				
Public support:				
MFS Annual Campaign	\$ 4,177,128	\$ 166,815	\$ -	\$ 4,343,943
United Way of Metropolitan Chicago	3,120,852	8,920	-	3,129,772
Government grants	15,438,624	-	-	15,438,624
In-kind contributions	76,078	-	-	76,078
Total public support	<u>22,812,682</u>	<u>175,735</u>	<u>-</u>	<u>22,988,417</u>
Revenue:				
Program service fees	6,599,233	-	-	6,599,233
Endowment payout	2,795,000	-	-	2,795,000
Income allocations from trusts	505,309	-	-	505,309
Rent and other income	86,174	-	-	86,174
Net assets released from restrictions	155,490	(155,490)	-	-
Total revenue	<u>10,141,206</u>	<u>(155,490)</u>	<u>-</u>	<u>9,985,716</u>
Total public support and revenue	<u>32,953,888</u>	<u>20,245</u>	<u>-</u>	<u>32,974,133</u>
Expenses:				
Program	26,607,236	-	-	26,607,236
Management and general	4,702,430	-	-	4,702,430
Fund raising	1,433,386	-	-	1,433,386
In-kind contributions	76,078	-	-	76,078
Total expenses before depreciation and amortization and net periodic benefit cost	<u>32,819,130</u>	<u>-</u>	<u>-</u>	<u>32,819,130</u>
Operating surplus (deficit)	<u>134,758</u>	<u>20,245</u>	<u>-</u>	<u>155,003</u>
Other changes from operating activities:				
Depreciation and amortization	(641,008)	-	-	(641,008)
Net periodic benefit cost not included in operating expenses	(1,196,309)	-	-	(1,196,309)
Change in net assets from operating activities	<u>(1,702,559)</u>	<u>20,245</u>	<u>-</u>	<u>(1,682,314)</u>
Nonoperating revenue (expenses)				
Public support and revenue (expenses):				
Campaign for Communities	-	-	-	-
Bequests	60	-	-	60
Effect of adoption of FAS 117-1 and UPMIFA	(26,357,084)	26,357,084	-	-
Net investment (losses)	(10,610,543)	-	(1,852,157)	(12,462,700)
Pension related changes other than net periodic pension cost	(1,831,784)	-	-	(1,831,784)
Change in fair value of interest rate swap	(1,056,568)	-	-	(1,056,568)
Change in net assets from nonoperating activities	<u>(39,855,919)</u>	<u>26,357,084</u>	<u>(1,852,157)</u>	<u>(15,350,992)</u>
(Decrease) increase in net assets	<u>(41,558,478)</u>	<u>26,377,329</u>	<u>(1,852,157)</u>	<u>(17,033,306)</u>
Net assets at beginning of year	<u>36,673,667</u>	<u>155,490</u>	<u>19,290,925</u>	<u>56,120,082</u>
Net assets at end of year	<u>\$ (4,884,811)</u>	<u>\$ 26,532,819</u>	<u>\$ 17,438,768</u>	<u>\$ 39,086,776</u>

See Notes to Financial Statements.

2008

Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total Agency
\$ 4,369,756	\$ 155,490	\$ -	\$ 4,525,246
3,158,385	-	-	3,158,385
14,463,405	-	-	14,463,405
1,754,375	-	-	1,754,375
<u>23,745,921</u>	<u>155,490</u>	<u>-</u>	<u>23,901,411</u>
7,144,033	-	-	7,144,033
1,900,000	-	-	1,900,000
542,597	-	-	542,597
647,672	-	-	647,672
698,235	(605,368)	(92,867)	-
<u>10,932,537</u>	<u>(605,368)</u>	<u>(92,867)</u>	<u>10,234,302</u>
<u>34,678,458</u>	<u>(449,878)</u>	<u>(92,867)</u>	<u>34,135,713</u>
26,820,520	-	-	26,820,520
5,022,422	-	-	5,022,422
1,651,239	-	-	1,651,239
1,754,375	-	-	1,754,375
<u>35,248,556</u>	<u>-</u>	<u>-</u>	<u>35,248,556</u>
<u>(570,098)</u>	<u>(449,878)</u>	<u>(92,867)</u>	<u>(1,112,843)</u>
(666,023)	-	-	(666,023)
207,767	-	-	207,767
<u>(1,028,354)</u>	<u>(449,878)</u>	<u>(92,867)</u>	<u>(1,571,099)</u>
1,628,494	-	-	1,628,494
85,116	-	-	85,116
-	-	-	-
(5,598,937)	-	(795,475)	(6,394,412)
(687,859)	-	-	(687,859)
(76,446)	-	-	(76,446)
<u>(4,649,632)</u>	<u>-</u>	<u>(795,475)</u>	<u>(5,445,107)</u>
<u>(5,677,986)</u>	<u>(449,878)</u>	<u>(888,342)</u>	<u>(7,016,206)</u>
<u>42,351,653</u>	<u>605,368</u>	<u>20,179,267</u>	<u>63,136,288</u>
<u>\$ 36,673,667</u>	<u>\$ 155,490</u>	<u>\$ 19,290,925</u>	<u>\$ 56,120,082</u>

Metropolitan Family Services

Statement of Functional Expenses
Year Ended June 30, 2009

	Programs						
	Mental Health	Child and Youth Development	Counseling	Older Adults	Parent Development	Economic Stability	Legal Aid
Salaries	\$ 4,040,609	\$ 3,792,821	\$ 2,409,507	\$ 1,425,718	\$ 1,312,521	\$ 1,512,516	\$ 1,033,894
Payroll taxes and benefits	1,054,386	971,591	635,231	350,923	361,199	460,366	271,990
Professional fees	446,600	152,839	58,114	30,670	3,030	65,044	3,898
Financial assistance	186,177	2,869	11,646	25,188	33,660	124,385	-
Occupancy	593,090	444,267	376,904	207,613	220,764	305,764	158,907
Equipment rental and maintenance	28,132	21,975	13,014	11,792	8,121	13,327	5,241
Other program expenses	325,669	695,402	196,694	99,462	208,330	128,040	77,172
Telephone	130,751	99,131	63,921	43,846	44,897	56,297	21,279
	<u>6,805,414</u>	<u>6,180,895</u>	<u>3,765,031</u>	<u>2,195,212</u>	<u>2,192,523</u>	<u>2,665,739</u>	<u>1,572,381</u>
Depreciation and amortization allocation	134,493	128,566	75,601	43,654	44,429	52,519	31,424
Net periodic benefit cost not included in operating expenses	239,262	203,373	143,557	83,742	71,779	71,779	47,852
	<u>\$ 7,179,169</u>	<u>\$ 6,512,833</u>	<u>\$ 3,984,189</u>	<u>\$ 2,322,607</u>	<u>\$ 2,308,730</u>	<u>\$ 2,790,036</u>	<u>\$ 1,651,657</u>

See Notes to Financial Statements.

Violence Prevention Intervention	Programs			Support Services				2009 Total Agency
	EAN	Public Policy	Total Program	Management and General	Fund Raising	Total Support Services	In-Kind Contributions	
\$ 403,378	\$ 181,582	\$ 186,037	\$ 16,298,583	\$ 2,987,512	\$ 811,369	\$ 3,798,882	\$ -	\$ 20,097,465
103,005	38,834	26,505	4,274,030	568,365	185,897	754,262	-	5,028,291
5,353	72,341	30,170	868,060	523,101	173,688	696,789	-	1,564,849
1,307	-	-	385,230	-	19,750	19,750	-	404,980
62,733	25,554	12,853	2,408,451	317,151	115,204	432,355	-	2,840,806
2,054	3,900	-	107,556	25,151	10,511	35,662	-	143,218
25,161	19,348	6,278	1,781,556	229,987	100,333	330,320	76,078	2,187,955
10,234	11,317	2,097	483,770	51,163	16,633	67,796	-	551,566
613,225	352,875	263,941	26,607,236	4,702,430	1,433,386	6,135,816	76,078	32,819,130
12,416	6,800	4,932	534,832	81,114	25,061	106,175	-	641,008
23,926	11,963	11,963	909,195	179,446	107,668	287,114	-	1,196,309
<u>\$ 649,567</u>	<u>\$ 371,639</u>	<u>\$ 280,836</u>	<u>\$ 28,051,263</u>	<u>\$ 4,962,991</u>	<u>\$ 1,566,115</u>	<u>\$ 6,529,106</u>	<u>\$ 76,078</u>	<u>\$ 34,656,447</u>

Metropolitan Family Services

Statement of Functional Expenses
Year Ended June 30, 2008

	Programs						
	Mental Health	Child and Youth Development	Counseling	Older Adults	Parent Development	Economic Stability	Legal Aid
Salaries	\$ 3,966,758	\$ 3,660,139	\$ 2,567,576	\$ 1,483,843	\$ 1,293,069	\$ 1,171,513	\$ 915,955
Payroll taxes and benefits	948,058	835,478	624,680	349,667	329,738	334,419	230,257
Professional fees	634,894	97,072	68,191	63,140	3,430	12,673	1,165
Financial assistance	338,023	14,166	46,377	29,031	36,604	240,020	-
Occupancy	616,575	558,240	400,215	232,320	218,007	214,560	151,119
Equipment rental and maintenance	26,108	31,281	63,156	14,644	25,266	9,311	484
Other program expenses	479,377	706,426	290,107	142,631	288,349	107,030	77,243
Telephone	140,180	99,322	72,703	54,019	48,713	44,039	22,124
	<u>7,149,972</u>	<u>6,002,125</u>	<u>4,133,006</u>	<u>2,369,295</u>	<u>2,243,177</u>	<u>2,133,566</u>	<u>1,398,347</u>
Depreciation and amortization allocation	136,422	128,124	85,987	49,031	47,233	42,958	29,400
Net periodic benefit cost not included in operating expenses	(41,553)	(35,320)	(24,932)	(14,544)	(12,466)	(12,466)	(8,311)
	<u>\$ 7,244,840</u>	<u>\$ 6,094,928</u>	<u>\$ 4,194,061</u>	<u>\$ 2,403,783</u>	<u>\$ 2,277,944</u>	<u>\$ 2,164,058</u>	<u>\$ 1,419,436</u>

See Notes to Financial Statements.

Violence Prevention Intervention	Programs			Support Services				2008 Total Agency
	EAN	Public Policy	Total Program	Management and General	Fund Raising	Total Support Services	In-Kind Contributions	
\$ 372,156	\$ 193,424	\$ 222,729	\$ 15,847,160	\$ 3,214,600	\$ 919,214	\$ 4,133,814	\$ -	\$ 19,980,974
88,179	43,452	34,441	3,818,370	578,465	192,281	770,747	-	4,589,117
4,952	102,777	39,080	1,027,375	492,216	286,160	778,376	1,689,875	3,495,626
725	-	-	704,945	-	20,992	20,992	6,500	732,437
62,441	27,686	18,571	2,499,736	364,416	128,201	492,617	5,250	2,997,602
1,871	4,799	500	177,420	38,718	11,568	50,286	-	227,706
28,052	14,155	9,901	2,143,272	261,068	174,640	435,707	52,750	2,631,729
11,258	10,955	3,288	506,603	68,018	18,744	86,762	-	593,364
569,632	397,249	328,511	26,724,880	5,017,501	1,751,800	6,769,301	1,754,375	35,248,556
12,251	7,860	6,378	545,645	88,460	31,917	120,378	-	666,023
(4,155)	(2,078)	(2,078)	(157,903)	(31,165)	(18,699)	(49,864)	-	(207,767)
<u>\$ 577,728</u>	<u>\$ 403,031</u>	<u>\$ 332,812</u>	<u>\$ 27,112,622</u>	<u>\$ 5,074,795</u>	<u>\$ 1,765,019</u>	<u>\$ 6,839,814</u>	<u>\$ 1,754,375</u>	<u>\$ 35,706,811</u>

Metropolitan Family Services

Statements of Cash Flows Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Change in net assets	\$ (17,033,306)	\$ (7,016,206)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Investment loss from endowment	1,852,157	795,475
Depreciation and amortization	641,008	666,023
Net realized loss (gain) on investments	668,746	(5,161,238)
Net unrealized loss on investments	8,845,857	9,685,460
Changes in operating assets and liabilities:		
Receivables	776,232	(1,481,813)
Prepaid expenses	53,295	86,504
Accounts payable, accrued expenses, and other	4,093,675	716,461
Deferred revenue	(39,611)	(301,877)
Funds held in custody for others	19,798	(32,542)
Net cash (used in) operating activities	(122,149)	(2,043,753)
Cash Flows from Investing Activities		
Proceeds from the sale of investments	5,287,531	18,645,430
Purchases of investments	(2,202,265)	(16,004,758)
Additions to property and equipment, net	(377,112)	(1,534,112)
Net cash provided by investing activities	2,708,154	1,106,560
Cash Flows from Financing Activities		
Net activity on line of credit	(200,000)	950,000
Investment (loss) from endowment	(1,852,157)	(795,475)
Issuance of notes payable	-	1,000,000
Payments on notes payable	(592,633)	(310,700)
Net cash (used in) provided by financing activities	(2,644,790)	843,825
(Decrease) in cash and cash equivalents	(58,785)	(93,368)
Cash and cash equivalents at beginning of year	174,809	268,177
Cash and cash equivalents at end of year	\$ 116,024	\$ 174,809
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 659,347	\$ 619,817

See Notes to Financial Statements.

Metropolitan Family Services

Notes to Financial Statements

Note 1. Agency and Affiliated Agency

Metropolitan Family Services (Agency), a not-for-profit Illinois corporation, is a nonsectarian human services agency located in metropolitan Chicago. The Agency was organized to provide a wide range of programs and services to strengthen low and moderate-income individuals, families, and communities.

Metropolitan Family Services/DuPage County (DuPage), founded in 1930, is a separate not-for-profit legal entity whose operations are managed and controlled by the Agency. This social service agency represents all of DuPage County. The financial information of DuPage is included within these financial statements.

Note 2. Summary of Significant Accounting Policies

Cash: It is usual and customary for the Agency to have cash on deposit in financial institutions exceeding the federally insured limit. The carrying amount reported for cash approximates their fair value.

Cash Equivalents: All investments with a remaining maturity of three months or less at the time of purchase are reported as cash equivalents. The carrying amount reported for cash equivalents approximates their fair values.

Investments: At June 30, 2009 and 2008, all investments, including the invested assets of the irrevocable perpetual trusts, are carried at fair value. Realized gains and losses are determined based on the average cost method.

Receivables: The carrying amount reported for receivables approximates their fair values due to their relatively short maturity period.

Beneficial Interest in Irrevocable Perpetual Trusts: The Agency is an income beneficiary of certain irrevocable perpetual trusts established by donors and administered by certain third-party agencies. Income allocations from such trusts have no restriction on their use and are recognized as revenue when received from the third-party Agencies. The Agency's beneficial interest in the assets of irrevocable perpetual trusts is carried at fair value in its statement of financial position based on values reported by the third-party trustees.

Amortization of Bond Issuance Costs: Bond issuance costs are those costs associated with the issuance of the Agency's debt. These costs are amortized using the straight-line method over the life of the bonds (29 years).

Derivative Financial Instruments: The Agency has an interest rate swap agreement with the objective of minimizing the variability of cash flows. This derivative financial instrument is recognized as either asset or liability at fair value in the statement of financial position with the changes in the fair value reported on the statement of activities. This instrument is classified on the statement of financial position as interest rate swap and the change in the fair value is recorded on the statement of activities.

Deferred Revenue: The Agency records all grant money received as revenue when expenses relating to the grants have occurred. All grants for which revenue has been received but expenses have not been incurred are recorded as deferred revenue.

Accounts Payable and Accrued Expenses: The carrying amounts for accounts payable and accrued expenses approximates their fair values due to their relatively short maturity period.

Notes Payable: The carrying amount for notes payable approximates their fair values.

Metropolitan Family Services

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Bonds Payable: The carrying value of the Agency's debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Agency for debt of the same remaining maturities with similar collateral requirements.

Interest Rate Swap: The interest rate swap is measured at fair value based on quoted market interest rates.

Property and Equipment: Property and equipment are carried at cost, except donated assets which are recorded at fair value at date of donation. All purchases in excess of \$5,000 are capitalized, while lesser amounts are charged to expense. Assets retired or otherwise disposed of are removed from the accounts at their net carrying amount. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets or terms of the related leases (40 years for buildings, 5 years for furniture and equipment, and 2-7 years for leasehold improvements).

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Unrestricted Net Assets: Unrestricted net assets are resources whose use has no limitations imposed by either management of the Agency or outside donors.

Restricted Net Assets: Temporarily restricted net assets are resources whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of amounts held in perpetuity. Earnings on the investment of permanently or temporarily restricted net assets are included in unrestricted revenue and support unless restricted by donors.

Contributions: Unconditional promises of others to give cash and other assets are recorded at fair value at the date the promise is made and reported as increases in either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the contributions. When a donor restriction expires (that is, when a stipulated time restriction ends or the purpose for which the contributions were restricted is fulfilled), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. In the absence of donor-imposed restrictions on the use of the assets, contributions of long-lived assets are reported as increases in unrestricted net assets.

Subsequent Events: The Agency has evaluated subsequent events for potential recognition and/or disclosure through October 20, 2009, the date the financial statements were issued.

Note 2. Summary of Significant Accounting Policies (continued)

Tax Status: The Agency and DuPage are tax-exempt under section 501(c)(3) of the Internal Revenue Code. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying statements of financial position along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Generally, years beginning after 2003 are still open to Federal taxing jurisdictions. When and if applicable, potential interest and penalty costs are accrued as incurred, with expenses recognized in nonoperating expenses in the statements of activities. As of June 30, 2009, and the year then ended, there are no material unrecognized / derecognized tax benefits or tax penalties or interest.

New accounting pronouncements: In March 2008, the FASB issued SFAS No.161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS No.161 amends and expands SFAS No.133, *Accounting for Derivative Instruments and Hedging Activities*, to provide users of financial statements with an enhanced understanding of the use of derivative instruments, accounting for derivative instruments and related hedged items, and the affect on an entity's financial position, financial performance, and cash flows. This Statement requires qualitative and quantitative disclosures, as well as disclosures about credit-risk related to contingent features in derivative agreements. SFAS No.161 is effective for financial statements issued for the Agency's first fiscal year beginning after November 15, 2008. The Agency has not yet determined the impact of adoption on its results of operations or financial position.

Note 3. Fair Value Disclosures

Effective July 1, 2008, the Agency adopted Statement No. 157, *Fair Value Measurements*, which provides a framework for measuring fair value under generally accepted accounting principles. Statement No. 157 applies to all financial instruments that are being measured and reported on a fair value basis.

Note 3. Fair Value Disclosures (continued)

As defined in Statement No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Agency uses various methods including market, income and cost approaches. Based on these approaches, the Agency often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Agency utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Agency is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the fiscal year ended June 30, 2009, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investment Securities:

The fair value of investment securities is based on quoted market prices, when available, provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument. Alternative investments held by the Agency for risk management purposes are traded in over-the-counter markets where quoted market prices are not readily available. For those investments, the Agency measures fair value using assumptions and projections, which includes extensive due diligence by the Agency's investment broker. The Agency classifies such alternative investments as Level 3.

Metropolitan Family Services

Notes to Financial Statements

Note 3. Fair Value Disclosures (continued)

Interest Rate Swap:

The valuation of this instrument is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the interest rate swap. This analysis reflects the contractual terms of the interest rate swap, including the period to maturity, and used observable market-based inputs, including the SIFMA index. The fair value estimate is classified as Level 2.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis at June 30:

	2009			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments:				
Mutual Funds	\$ 27,979,815	\$ 27,979,815	\$ -	\$ -
Alternative Investments	3,943,761	-	-	3,943,761
Beneficial interest in perpetual trusts	11,872,276	11,872,276	-	-
	<u>\$ 43,795,852</u>	<u>\$ 39,852,091</u>	<u>\$ -</u>	<u>\$ 3,943,761</u>
Liabilities:				
Interest-rate swap	\$ 1,605,879	\$ -	\$ 1,605,879	\$ -
	<u>\$ 1,605,879</u>	<u>\$ -</u>	<u>\$ 1,605,879</u>	<u>\$ -</u>
	2008			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments:				
Mutual Funds	\$ 38,748,489	\$ 38,748,489	\$ -	\$ -
Alternative Investments	3,922,800	-	-	3,922,800
Beneficial interest in perpetual trusts	13,724,433	13,724,433	-	-
	<u>\$ 56,395,722</u>	<u>\$ 52,472,922</u>	<u>\$ -</u>	<u>\$ 3,922,800</u>
Liabilities:				
Interest-rate swap	\$ 549,311	\$ -	\$ 549,311	\$ -
	<u>\$ 549,311</u>	<u>\$ -</u>	<u>\$ 549,311</u>	<u>\$ -</u>

Metropolitan Family Services

Notes to Financial Statements

Note 3. Fair Value Disclosures (continued)

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	<u>Net Alternative Investments</u>
Balance, July 1, 2008	\$ 3,922,800
Total net (losses) included in: change in net assets	(915,175)
Purchases, sales, issuances, settlements, net	565,664
Transfers into/out of Level 3	370,472
Balance, June 30, 2009	<u>\$ 3,943,761</u>

Note 4. Investments and Beneficial Interest in Irrevocable Perpetual Trusts

Investment assets held by the Agency are summarized as follows at June 30:

	<u>2009</u>	<u>2008</u>
	Fair Value (Carrying Value)	Fair Value (Carrying Value)
Investments:		
Mutual Funds	\$ 27,979,815	\$ 38,748,489
Alternative investments	3,943,761	3,922,800
Beneficial interest in perpetual trusts	11,872,276	13,724,433
	<u>\$ 43,795,852</u>	<u>\$ 56,395,722</u>

Metropolitan Family Services

Notes to Financial Statements

Note 4. Investments and Beneficial Interest in Irrevocable Perpetual Trusts (continued)

Total returns on investment assets held during 2009 and 2008 are summarized as follows:

2009	Unrestricted	Permanently Restricted	Total
Dividends and interest income	\$ 2,089,108	\$ -	\$ 2,089,108
Investment management fees	(90,602)	-	(90,602)
Net realized loss	(668,746)	-	(668,746)
Net unrealized loss	(8,845,857)	(1,852,157)	(10,698,014)
Interest expense	(299,446)	-	(299,446)
Total return on investments	<u>(7,815,543)</u>	<u>(1,852,157)</u>	<u>(9,667,700)</u>
Investment return designated for: Endowment payout	<u>(2,795,000)</u>	<u>-</u>	<u>(2,795,000)</u>
Investment return less amounts designated for endowment payout	<u>\$ (10,610,543)</u>	<u>\$ (1,852,157)</u>	<u>\$ (12,462,700)</u>
2008			
Dividends and interest income	\$ 1,191,542	\$ -	\$ 1,191,542
Investment management fees	(86,850)	-	(86,850)
Net realized gain	5,161,238	-	5,161,238
Net unrealized loss	(9,685,460)	(795,475)	(10,480,935)
Interest expense	(279,407)	-	(279,407)
Total return on investments	<u>(3,698,937)</u>	<u>(795,475)</u>	<u>(4,494,412)</u>
Investment return designated for: Endowment payout	<u>(1,900,000)</u>	<u>-</u>	<u>(1,900,000)</u>
Investment return less amounts designated for endowment payout	<u>\$ (5,598,937)</u>	<u>\$ (795,475)</u>	<u>\$ (6,394,412)</u>

Metropolitan Family Services

Notes to Financial Statements

Note 4. Investments and Beneficial Interest in Irrevocable Perpetual Trusts (continued)

The Agency invests in a professionally managed portfolio of mutual funds and alternative investments. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

The Agency is also a designated income beneficiary of certain irrevocable perpetual trusts. The terms of the trust agreements provide that the Agency, as an income beneficiary, is to receive its beneficial interest in the income of the trust assets as earned in perpetuity. Such trust assets are held and invested in perpetuity by the third-party trustees, which are financial institutions.

At June 30, 2009 and 2008, the assets of the irrevocable trusts are principally invested in marketable equity securities and bonds and notes. During 2009 and 2008, income allocations received by the Agency from irrevocable perpetual trusts amounted to approximately \$495,309 and \$539,597, respectively, and the Agency's beneficial interest in the net unrealized (depreciation) appreciation in the fair value of the irrevocable trusts' assets amounted to \$(1,852,157) and \$(795,475), respectively.

Note 5. Endowment Funds

The Agency's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

On June 30, 2009, the Governor of the State of Illinois signed into law the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA differs from laws previously in place in a few key areas. It eliminates the historic dollar value rule with respect to endowment fund spending, it updates the prudence standard for the management and investment of charitable funds, and it amends the provisions governing the release and modification of restrictions on charitable funds.

Effective July 1, 2008, the Agency adopted the provisions of FASB Statement of Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for all Endowment Funds* (FSP FAS 117-1). In accordance with the provisions of FSP FAS 117-1 and the change in the State of Illinois laws as described above, the Agency was required to reclassify certain net assets between restriction categories; unrestricted, temporarily restricted; and permanently restricted. The impact on the net asset categories was a decrease in unrestricted net assets and an increase in temporarily restricted net assets of \$26,357,084 and resulted in a deficit unrestricted net asset balance of \$4,884,811.

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Notes to Financial Statements

Note 5. Endowment Funds (continued)

Interpretation of Relevant Law

The Board of Directors has interpreted the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, the Agency classified 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 the Agency in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Agency considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

- 1) The duration and preservation of the fund;
- 2) The purpose of the Agency 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 Agency; and
- 7) The investment policies of the Agency.

The Agency's endowment net asset composition by type of fund is as follows for the years ended June 30, 2009 and 2008:

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted	\$ -	\$ -	\$ 17,438,768	\$ 17,438,768
Board Designated	-	26,357,084	-	26,357,084
Total Funds	<u>\$ -</u>	<u>\$ 26,357,084</u>	<u>\$ 17,438,768</u>	<u>\$ 43,795,852</u>

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted	\$ -	\$ -	\$ 19,290,925	\$ 19,290,925
Board Designated	37,104,797	-	-	37,104,797
Total Funds	<u>\$ 37,104,797</u>	<u>\$ -</u>	<u>\$ 19,290,925</u>	<u>\$ 56,395,722</u>

Metropolitan Family Services

Notes to Financial Statements

Note 5. Endowment Funds (continued)

The changes in endowment net assets for the Agency were as follows for the years ended June 30, 2009 and 2008:

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year				
Investments	\$ 37,104,797	\$ -	\$ 5,566,492	\$ 42,671,289
Perpetual trusts	-	-	13,724,433	13,724,433
Total beginning net assets	<u>37,104,797</u>	<u>-</u>	<u>19,290,925</u>	<u>56,395,722</u>
Investment Return:				
Dividends and interest income	1,703,166	-	-	1,703,166
Net unrealized loss	(9,109,274)	-	(1,852,157)	(10,961,431)
Total Investment Return	<u>(7,406,108)</u>	<u>-</u>	<u>(1,852,157)</u>	<u>(9,258,265)</u>
Appropriation of endowment assets for expenditure:				
Operating expense	(2,795,000)	-	-	(2,795,000)
Non-Operating expense	(374,000)	-	-	(374,000)
Cash flow	(172,605)	-	-	(172,605)
Investment return less amounts designated for endowment payout	<u>(3,341,605)</u>	<u>-</u>	<u>-</u>	<u>(3,341,605)</u>
Other changes:				
Reclassification based on changes in law and accounting principle	(26,357,084)	26,357,084	-	-
Endowment net assets, end of year				
Investments	-	26,357,084	5,566,492	31,923,576
Perpetual trusts	-	-	11,872,276	11,872,276
Total ending net assets	<u>\$ -</u>	<u>\$ 26,357,084</u>	<u>\$ 17,438,768</u>	<u>\$ 43,795,852</u>

Metropolitan Family Services

Notes to Financial Statements

Note 5. Endowment Funds (continued)

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year				
Investments	\$ 43,381,146	\$ -	\$ 5,566,492	\$ 48,947,638
Perpetual trusts	-	-	14,612,775	14,612,775
Total beginning net assets	43,381,146	-	20,179,267	63,560,413
Investment Return:				
Dividends and interest income	1,161,874	-	-	1,161,874
Net unrealized loss	(4,524,223)	-	(888,342)	(5,412,565)
Total Investment Return	(3,362,349)	-	(888,342)	(4,250,691)
Appropriation of endowment assets for expenditure:				
Operating expense	(1,900,000)	-	-	(1,900,000)
Non-Operating expense	(614,000)	-	-	(614,000)
Cash flow	(400,000)	-	-	(400,000)
Investment return less amounts designated for endowment payout	(6,276,349)	-	(888,342)	(7,164,691)
Endowment net assets, end of year				
Investments	37,104,797	-	5,566,492	42,671,289
Perpetual trusts	-	-	13,724,433	13,724,433
Total ending net assets	\$ 37,104,797	\$ -	\$ 19,290,925	\$ 56,395,722

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Illinois UPMIFA requires the Agency to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2009.

Metropolitan Family Services

Notes to Financial Statements

Note 5. Endowment Funds (continued)

The Agency has adopted investment and spending policies for endowment assets as follows:

Investment Policy:

The investment policy of the MFS Endowment is to achieve the highest rate of return possible within an acceptable range of risk and volatility. Based on that objective, the current assumptions are that long-term returns net of expenses will average 8 percent and long-term inflation will average 3 percent.

The MFS Investment Committee has the responsibility to establish the policies that guide the specific investments of the Endowment assets. The policies describe the degree of investment risk and diversification that the committee deems appropriate.

The committee, in consultation with its investment consultant, monitors the performance of investment managers and adds, replaces, or eliminates managers as needed.

Spending Policy:

Endowment spending is set annually by the Board after considering the funding needs of current agency operations and the desire to preserve the long-term purchasing power of the Endowment. Distributions are authorized by the Board based on recommendations of the Investment and Finance Committees.

Note 6. Fund Raising Pledges Receivable

Pledges receivable are recorded at fair value, net of any allowance and discount used for multi-year pledges. There were no allowances on pledges as of June 30, 2009 and 2008. As of June 30, pledges are summarized as follows:

	2009	2008
Less than 1 year	\$ 511,580	\$ 592,632
1 to 5 years	385,043	450,000
	<u>\$ 896,623</u>	<u>\$ 1,042,632</u>

Metropolitan Family Services

Notes to Financial Statements

Note 7. Property and Equipment

Property and equipment are summarized as follows at June 30:

	2009	2008
Land	\$ 2,872,790	\$ 2,872,790
Buildings and improvements	18,903,044	18,657,150
Leasehold improvements	1,706,686	1,706,686
Furniture and equipment	7,686,723	7,555,505
	<u>31,169,243</u>	<u>30,792,130</u>
Less: Accumulated depreciation	13,530,520	12,898,191
	<u>\$ 17,638,723</u>	<u>\$ 17,893,939</u>

Note 8. Short-Term Debt

As of June 30, 2009 and 2008, the Agency has a revolving credit line in the amount of \$3,000,000. Interest is accrued monthly at either prime rate or the LIBOR rate plus 75 basis points. The weighted average interest rate at June 30, 2009 and 2008, was 1.16 percent and 3.06 percent, respectively. The covenants of the revolving credit line are substantially the same as those of the Illinois Development Finance Authority Variable Rate Demand Revenue Bonds described in Note 9. The balance outstanding on the line of credit was \$1,250,000 at June 30, 2009 and \$1,450,000 at June 30, 2008. The line of credit expires on October 1, 2010.

Note 9. Long-Term Debt

Long-term debt is summarized as follows at June 30:

	2009	2008
Notes Payable:		
Term Loan Due August 12, 2010	\$ 285,000	\$ 510,000
Term Loan Due September 12, 2012	625,000	987,500
Purchase money note and bank financing, due November 30, 2011	800,000	800,000
Promissory Note Due March 1, 2020	74,850	79,983
Notes payable	<u>\$ 1,784,850</u>	<u>\$ 2,377,483</u>
Bonds Payable:		
Illinois Development Finance Authority Variable Rate Demand Revenue Bonds, Series 1999, maturing in the aggregate principal amount on January 1, 2029. The bonds are supported by a letter of credit agreement which expires March 15, 2010 and is expected to be renewed.	<u>\$ 12,700,000</u>	<u>\$ 12,700,000</u>

Metropolitan Family Services

Notes to Financial Statements

Note 9. Long-Term Debt (continued)

Term Loan

In 2008, the Agency re-negotiated the term loan due August 12, 2010. The loan bears an interest rate of 4.17 percent and is payable in equal quarterly installments of principal (\$45,000) plus interest. In 2008, the Agency also entered into a new term loan for the North Children's Center due September 12, 2012. The loan bears an interest rate of 5.39 percent and is payable in equal quarterly installments of principal (\$12,500) plus interest.

Purchase Money Note and Bank Financing

During 1992, the Agency acquired by means of assignment, a 100 percent beneficial interest in a certain land trust representing certain property previously leased by the Agency from the seller in exchange for a limited guaranty. The Agency renewed this agreement in December 2006. Under this agreement, the Agency is required to make scheduled monthly interest payments of \$6,400 for the period of November 1, 2002 through November 30, 2006 and \$6,667 for the period of December 1, 2006 through November 30, 2011.

In connection with the guaranty and pursuant to the terms of the purchase agreement, the Agency has agreed to reimburse and indemnify the seller and provide for timely monthly debt service in connection with the existing \$400,000 bank financing and certain other costs associated with the property and to deliver to the seller a \$400,000 purchase money note due November 30, 2011. The bank financing and purchase money note are secured by a first and second mortgage and collateral assignment of beneficial interest, respectively.

Subsequent to December 1, 2010, and prior to November 30, 2011, the seller may exercise its option to repurchase the property for an amount based on the related option agreement, resulting principally in the release of the Agency from substantially all liability under the bank financing and purchase money note. If the seller's repurchase option is not exercised prior to December 1, 2011, the Agency may exercise its option to cause the seller to repurchase the property for the aforementioned amount.

Promissory Note

In 2003, the Agency borrowed \$95,000 from the Illinois Facilities Fund as part of the financing arranged by the City of Chicago for a new childcare center. The loan is in the form of a promissory note which bears interest at 5 percent and is payable in monthly installments, ranging from \$439 to \$749, until maturity.

Metropolitan Family Services

Notes to Financial Statements

Note 9. Long-Term Debt (continued)

Illinois Development Finance Authority Variable Rate Demand Revenue Bonds

In March 1999, the Illinois Development Finance Authority (Authority) on behalf of the Agency issued its Variable Rate Demand Revenue Bonds, Series 1999, in the principal amount of \$12,700,000 pursuant to an Indenture of Trust dated as of March 1, 1999, between the Authority and the Trustee. The proceeds of the Series 1999 bonds were used to finance all or a portion of the cost of acquisition, construction, renovation, expansion, restoration, and equipping of certain facilities of the Agency and to reimburse the Agency for certain capital projects, provide a portion of the interest on the bonds, and pay certain expenses incurred in connection with the Issuance of the bonds. All other proceeds will be invested by the Trustee as provided in the Indenture.

The Series 1999 Bonds bear interest at a variable interest rate determined on a weekly basis. Interest rates ranged from 0.27 percent to 7.25 percent during 2009 and from 1.10 percent to 4.00 percent during 2008. The Series 1999 Bonds are convertible at the option of the Agency to another variable rate mechanism, as provided in the Indenture of Trust, dated March 1, 1999.

The Agency has a letter of credit agreement with a bank under the terms of which the bank agrees to make liquidity loans to the Agency in the amount necessary to purchase the variable rate demand direct obligations if not remarketed. The maximum amount of the liquidity loans would be principal (\$12,700,000 at June 30, 2009) plus accrued interest. The letter of credit expires March 15, 2010 and carries an interest rate of 0.45 percent, and is expected to be renewed.

The terms of the long-term debt agreement require, among other things, the maintenance of specific financial ratios and place limitations on additional indebtedness and pledging of assets.

On October 21, 2005, the Agency entered into an interest rate swap agreement (swap agreement) with a non-amortizing notional amount of \$12,700,000 with an objective to minimize the variability of cash flows. Under the terms of the swap agreement, the Agency receives monthly payments based upon a variable rate of interest and makes monthly payments based upon a fixed rate of 3.5 percent through November 1, 2015 and 3.85 percent thereafter through January 1, 2029. The variable rate of interest is based on the USD-LIBOR-BBA (0.29 percent and 2.46 percent at June 30, 2009 and 2008, respectively).

Net interest paid or received under the swap agreement is included in interest expense. The net differential paid by the Agency as a result of the swap agreement amounted to \$317,294 and \$78,781 for the years ended June 30, 2009 and 2008, respectively. The change in fair value of the swap agreement was an unrealized loss of \$1,056,568 and \$76,446 in 2009 and 2008, respectively.

The total interest expense for the year is composed of the following elements:

	2009	2008
Interest expense	\$ 659,347	\$ 619,817
Change in fair value of swap agreement	1,056,568	76,446
Total interest expense	<u>\$ 1,715,915</u>	<u>\$ 696,263</u>

Metropolitan Family Services

Notes to Financial Statements

Note 9. Long-Term Debt (continued)

Interest expense is reported within the financial statements as follows:

	2009	2008
Operating:		
Program expenses	\$ 359,901	\$ 340,410
Non-Operating:		
Interest expense netted against investment income	299,446	279,407
Change in fair value of interest rate swap	1,056,568	76,446
	<u>\$ 1,715,915</u>	<u>\$ 696,263</u>

Note 10. Restricted Net Assets

Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2009 and 2008:

	2009	2008
United Way Metropolitan Chicago - African American Initiative	\$ 8,920	\$ -
Community services	151,812	133,130
Financial assistance	15,003	22,360
	<u>\$ 175,735</u>	<u>\$ 155,490</u>

Permanently restricted net assets are restricted as follows at June 30:

	2009	2008
Beneficial interest in irrevocable perpetual trusts invested in perpetuity by third-party trustees, the income from which is expendable to support any of the activities of the Agency	\$ 11,872,276	\$ 13,724,433
Agency endowment invested in perpetuity by the Agency, the income from which is expendable to support any of the activities of the Agency	5,391,475	5,391,475
Agency endowment invested in perpetuity by the Agency, the income from which is expendable to support specific programs as restricted by the donor.	175,017	175,017
	<u>\$ 17,438,768</u>	<u>\$ 19,290,925</u>

Metropolitan Family Services

Notes to Financial Statements

Note 11. Pension Plan

Substantially all full-time employees of the Agency participated in a trustee, noncontributory, defined-benefit pension plan (Plan).

The Agency implemented a partial plan freeze as of December 31, 2008 for all staff aged 52 and younger. There were no changes to the benefits of those employees aged 53 and older.

A summary of the changes in the projected benefit obligation and plan assets and the resulting funded status of the defined-benefit pension plan is as follows at June 30:

	2009	2008
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 14,415,855	\$ 15,150,767
Service cost	575,803	813,470
Interest cost	961,932	965,791
Actuarial losses (gains)	1,204,418	(1,118,818)
Curtailments	(838,514)	-
Benefits paid	(1,116,724)	(1,395,355)
Projected benefit obligation at year-end	<u>\$ 15,202,770</u>	<u>\$ 14,415,855</u>
Accumulated benefit obligation	<u>\$ 14,207,624</u>	<u>\$ 12,426,676</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 10,455,859	\$ 11,760,184
Actual return on plan assets	(2,113,819)	(919,649)
Contributions	1,373,813	1,010,679
Benefits paid	(1,116,724)	(1,395,355)
Fair value of plan assets at year-end	<u>\$ 8,599,129</u>	<u>\$ 10,455,859</u>
Fair value of plan assets	\$ 8,599,129	\$ 10,455,859
Benefit obligations	15,202,770	14,415,855
Funded status (plan assets less benefit obligations)	<u>\$ (6,603,641)</u>	<u>\$ (3,959,996)</u>
Amounts recognized on statement of financial position consist of pension liability	<u>\$ (6,603,641)</u>	<u>\$ (3,959,996)</u>

The Projected Benefit Obligation is the actuarial present value of benefits under the plan formula, based on employee service to date and expected future compensation levels.

The Accumulated Benefit Obligation is the actuarial present value of benefits earned to date, based on current and past compensation levels.

Metropolitan Family Services

Notes to Financial Statements

Note 11. Pension Plan (continued)

	2009	2008
Cumulative amounts recognized in changes from non-operating activities:		
Beginning cumulative amount	\$ 3,415,234	\$ 2,727,375
Current year amount recognized in changes from non-operating activities	1,831,784	687,859
Ending cumulative amounts	<u>\$ 5,247,018</u>	<u>\$ 3,415,234</u>
Components of cumulative amounts recognized in changes from non-operating activities:		
Unrecognized actuarial (gain) / loss	\$ 5,078,248	\$ 2,179,102
Unrecognized transition (asset) / obligation	-	(52,539)
Unrecognized prior service cost	168,770	1,288,671
	<u>\$ 5,247,018</u>	<u>\$ 3,415,234</u>
Components of net periodic benefit cost:		
Service cost	\$ 575,803	\$ 813,470
Interest cost	961,932	965,791
Expected return on plan assets	(741,122)	(959,290)
Net amortization and deferrals	363,069	72,262
Curtailment charge	1,025,992	-
Net periodic benefit cost	<u>\$ 2,185,674</u>	<u>\$ 892,233</u>

The net periodic benefit cost is presented on the statement of functional expenses as follows:

	2009	2008
Net periodic benefit cost in excess of contributions	\$ 1,196,309	\$ (207,767)
Contributions, included in "payroll taxes and benefits"	989,365	1,100,000
	<u>\$ 2,185,674</u>	<u>\$ 892,233</u>

The net pension cost was calculated using the June 30, 2009 census data asset information as of June 30, 2009, and a measurement date of June 30, 2009.

Estimated transition (asset) and prior service cost that will be amortized into periodic benefit cost in the next fiscal year are \$0 and \$52,539, respectively.

Metropolitan Family Services

Notes to Financial Statements

Note 11. Pension Plan (continued)

Assumptions

Pension costs are determined based on actuarial valuations that reflect appropriate assumptions as of the measurement date, ordinarily the beginning of each year. The funded status of the plans is determined using appropriate assumptions as of each year-end. A summary of the major assumptions follows:

	2009	2008
Funded status:		
Discount rate	6.40%	7.00%
Future salary increases	3.00%	3.00%
Pension cost:		
Discount rate	6.40%	7.00%
Return on assets in plans	8.00%	8.00%
Future salary increases	3.00%	3.00%

Plan Assets

The Agency invests the defined benefit plan assets in a professionally managed portfolio of equity and debt securities. The Agency's target asset allocation is approximately 30 percent fixed income and 70 percent equity securities. Each year this asset allocation strategy is reviewed to determine the percentage of the fund that is allocated to equity and debt securities. The expected rate of return is based on both historical returns as well as the outlook for future returns given the current economic conditions.

The asset allocation for the Agency's pension plan by asset category is as follows:

	2009	2008
Equity securities	68%	66%
Debt securities	28%	34%
Cash	4%	0%
Total	100%	100%

Contributions

The Agency expects to contribute \$627,243 to the pension plan during the year ending June 30, 2010.

Metropolitan Family Services

Notes to Financial Statements

Note 11. Pension Plan (continued)

Estimated Future Benefit Payments

Estimated future benefit payments are as follows:

Year ending June 30:	
2010	\$ 1,251,043
2011	804,077
2012	454,022
2013	1,044,106
2014	810,267
2015-2019	6,244,038
	<u>\$ 10,607,553</u>

Note 12. Operating Leases

The Agency occupies office space used in its activities under operating leases expiring through March 2017. In 2009 and 2008, total rental expense recognized under all operating leases amounted to approximately \$1,242,053 and \$1,183,705, respectively. Future minimum annual lease commitments under non-cancelable operating leases at June 30, 2009, for each of the next eight years in the period ending June 30, 2017, and thereafter, are summarized as follows:

Year ending June 30:	
2010	\$ 1,029,796
2011	888,580
2012	842,555
2013	797,496
2014	779,801
2015	790,018
2016	800,309
2017	37,337
	<u>\$ 5,965,892</u>

Note 13. Fiduciary Arrangements

Included in cash and funds held in custody for others at June 30, 2009 and 2008, are \$136,234 and \$116,436 of funds held by Metropolitan Family Services on behalf of certain clients to cover their third-party obligations.

Note 14. Supporting Agencies

The Agency received approximately \$6,558,000 and \$7,052,000 from State of Illinois Agencies in 2009 and 2008, respectively. Of the amount received, approximately \$3,941,000 and \$4,330,000 was received from the Department of Children and Family Services (DCFS) in 2009 and 2008, respectively. Of the amount received, approximately \$2,617,000 and \$2,722,000 was received from the Department of Human Services (DHS) in 2009 and 2008, respectively.

Metropolitan Family Services

Notes to Financial Statements

Note 14. Supporting Agencies (continued)

The Agency had a receivable balance of approximately \$145,000 and \$465,000 from DCFS in 2009 and 2008, respectively. The Agency had a receivable balance of approximately \$471,000 and \$48,000 from DHS in 2009 and 2008, respectively.

A significant reduction in the level of this support, if this were to occur, could have a significant effect on the Agency's programs and activities. This support is subject to review and final determination by those State of Illinois agencies. The Agency does not anticipate any significant adjustment upon final review and determination.