

FAMILY AND CHILDREN'S SERVICE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

June 30, 2012 and 2011

FAMILY AND CHILDREN'S SERVICE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Family and Children's Service
Nashville, Tennessee

We have audited the accompanying statements of financial position of Family and Children's Service, as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 Family and Children's Service, as of June 30, 2012 and 2011, 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 our report dated November 5, 2012, on our consideration of Family and Children's Service's internal control over financial reporting and on 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 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 financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and

relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Frasier, Owen + Hand, PLLC

November 5, 2012
Nashville, Tennessee

FAMILY AND CHILDREN'S SERVICE
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 518,090	\$ 548,275
Receivables from federal and state grants	215,305	334,710
Unconditional promises to give	433,117	408,220
Other receivables	124,177	24,470
Total current assets	1,290,689	1,315,675
Land, building and equipment, net	680,637	741,190
Investments	3,508,755	3,663,931
Total assets	<u>\$ 5,480,081</u>	<u>\$ 5,720,796</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 57,231	\$ 103,763
Accrued payroll and benefits	95,934	163,961
Total liabilities	153,165	267,724
Net assets:		
Unrestricted:		
Designated for endowment	2,183,125	2,183,125
Other unrestricted	2,584,799	2,749,987
Total unrestricted	4,767,924	4,933,112
Temporarily restricted	558,992	519,960
Total net assets	5,326,916	5,453,072
Total liabilities and net assets	<u>\$ 5,480,081</u>	<u>\$ 5,720,796</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF ACTIVITIES
Year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support from operations:			
Federal and state grants and fees	\$ 1,610,425	\$ -	\$ 1,610,425
United Way	533,008	433,117	966,125
Other grants	272,905	177,830	450,735
Contributions	127,149	1,200	128,349
Special events, net of direct benefit costs of \$28,890	149,621	-	149,621
Program service fees	136,870	-	136,870
Miscellaneous income	1,452	-	1,452
Net assets released from restrictions	573,115	(573,115)	-
	<u>3,404,545</u>	<u>39,032</u>	<u>3,443,577</u>
Total revenue and other support from operations			
Operating expenses:			
Program services	2,817,621	-	2,817,621
Management and general	469,285	-	469,285
Fundraising	277,627	-	277,627
	<u>3,564,533</u>	<u>-</u>	<u>3,564,533</u>
Total operating expenses			
Change in net assets before investment activity	<u>(159,988)</u>	<u>39,032</u>	<u>(120,956)</u>
Investment activity:			
Interest and dividends	88,833	-	88,833
Realized and unrealized losses	(94,033)	-	(94,033)
	<u>(5,200)</u>	<u>-</u>	<u>(5,200)</u>
Total investment loss			
Change in net assets	(165,188)	39,032	(126,156)
Net assets - beginning of year	<u>4,933,112</u>	<u>519,960</u>	<u>5,453,072</u>
Net assets - end of year	<u>\$ 4,767,924</u>	<u>\$ 558,992</u>	<u>\$ 5,326,916</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF ACTIVITIES
Year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support from operations:			
Federal and state grants and fees	\$ 1,664,254	\$ -	\$ 1,664,254
United Way	550,981	408,220	959,201
Other grants	314,679	17,056	331,735
Contributions	115,222	-	115,222
Special events, net of direct benefit costs of \$28,852	25,918	67,471	93,389
Program service fees	16,488	-	16,488
Net assets released from restrictions	490,290	(490,290)	-
	<u>3,177,832</u>	<u>2,457</u>	<u>3,180,289</u>
Total revenue and other support from operations			
Operating expenses:			
Program services	2,718,288	-	2,718,288
Management and general	442,567	-	442,567
Fundraising	205,440	-	205,440
	<u>3,366,295</u>	<u>-</u>	<u>3,366,295</u>
Total operating expenses			
Change in net assets before investment activity	<u>(188,463)</u>	<u>2,457</u>	<u>(186,006)</u>
Investment activity:			
Interest and dividends	90,958	-	90,958
Realized and unrealized gains	497,468	-	497,468
	<u>588,426</u>	<u>-</u>	<u>588,426</u>
Total investment income			
Change in net assets	399,963	2,457	402,420
Net assets - beginning of year	<u>4,533,149</u>	<u>517,503</u>	<u>5,050,652</u>
Net assets - end of year	<u>\$ 4,933,112</u>	<u>\$ 519,960</u>	<u>\$ 5,453,072</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2012

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,821,826	\$ 291,210	\$ 120,673	\$ 2,233,709
Professional fees	194,093	62,210	25,766	282,069
Payroll taxes	164,373	22,769	10,841	197,983
Employee benefits	125,919	13,873	6,343	146,135
Financial aid	115,071	-	-	115,071
Equipment & building expense	87,852	12,376	12,330	112,558
Travel	74,534	7,650	2,874	85,058
Occupancy	68,532	7,567	2,151	78,250
Depreciation	51,295	7,115	2,143	60,553
Supplies	29,482	19,885	10,259	59,626
Miscellaneous	8,107	3,001	29,839	40,947
Insurance	21,506	10,806	1,750	34,062
Telephone	26,571	636	1,202	28,409
Rebranding	-	-	26,500	26,500
Printing & publications	1,071	775	20,092	21,938
Organizational dues	14,157	4,848	1,381	20,386
Conferences & meetings	9,069	4,287	1,066	14,422
Postage	4,163	277	2,417	6,857
	<u>\$ 2,817,621</u>	<u>\$ 469,285</u>	<u>\$ 277,627</u>	<u>\$ 3,564,533</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2011

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,801,302	\$ 131,246	\$ 129,716	\$ 2,062,264
Professional fees	146,178	120,757	12,904	279,839
Payroll taxes	146,947	30,041	8,767	185,755
Employee benefits	114,360	12,890	1,090	128,340
Financial aid	127,176	6,068	305	133,549
Travel	65,873	35,066	1,466	102,405
Supplies	52,789	28,287	1,802	82,878
Occupancy	76,233	4,425	1,366	82,024
Equipment and building expense	48,230	9,367	13,376	70,973
Depreciation	40,061	7,925	1,668	49,654
Telephone	38,797	3,176	5,603	47,576
Insurance	20,235	9,910	883	31,028
Miscellaneous	9,383	15,047	2,492	26,922
Conferences and meetings	12,919	6,864	595	20,378
Advertising	489	225	15,154	15,868
Organizational dues	12,305	932	195	13,432
Printing and publications	1,081	5,762	6,091	12,934
Loss on equipment disposal	-	11,667	-	11,667
Postage	3,930	2,912	1,967	8,809
	<u>\$ 2,718,288</u>	<u>\$ 442,567</u>	<u>\$ 205,440</u>	<u>\$ 3,366,295</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENTS OF CASH FLOWS
Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (126,156)	\$ 402,420
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	60,553	49,654
Unrealized and realized losses (gains) on investments	94,033	(497,468)
Loss on disposal of equipment	-	11,667
Changes in operating assets and liabilities:		
Receivables from federal and state grants	119,405	(137,038)
Unconditional promises to give	(24,897)	36,147
Other receivables	(99,707)	11,602
Accounts payable	(46,532)	(23,430)
Accrued payroll and benefits	(68,027)	28,415
Net cash used in operating activities	<u>(91,328)</u>	<u>(118,031)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	125,738	171,000
Purchase of investments	(64,595)	(75,312)
Purchase of equipment	-	(99,448)
Net cash provided by (used in) investing activities	<u>61,143</u>	<u>(3,760)</u>
Net decrease in cash and cash equivalents	(30,185)	(121,791)
Cash and cash equivalents - beginning of year	<u>548,275</u>	<u>670,066</u>
Cash and cash equivalents - end of year	<u><u>\$ 518,090</u></u>	<u><u>\$ 548,275</u></u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activity

The purpose of Family and Children's Service (the "Organization") is to make best-practice mental health care accessible to all that need it to enable children and families to lead healthier, more fulfilling and productive lives. This is accomplished through 24-hour telephone crisis counseling, trauma counseling for child and adult victims of violence, attachment counseling to help foster and adoptive children and families form secure loving relationships, and family and individual counseling for addiction, depression, marriage and relationship issues. The Organization serves various regions throughout the State of Tennessee.

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America as prescribed for not-for-profit organizations. Accordingly, net assets of the Organization, and changes therein are classified and reported as follows:

Unrestricted net assets

Undesignated – Net assets that are not subject to donor-imposed stipulations or designated by the Organization's Board.

Designated – Net assets designated by the Organization's Board for particular purposes, presently designated by the Board for endowment.

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 statements of activities as net assets released from restrictions. Contributions which are restricted for specific programs are reflected as unrestricted revenue if these funds are received and spent in the same fiscal year.

Permanently restricted net assets – Net assets subject to donor imposed stipulations that they be maintained permanently by the Organization. Generally, donors of these assets permit the Organization to use all or part of the income earned for general or specific purposes. The Organization has no permanently restricted net assets at June 30, 2012 or 2011.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity when purchased of three months or less to be cash equivalents.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional Promises to Give

Contributions are recognized when a donor makes an unconditional promise to give to the Organization. Contributions that are not restricted, or are restricted by the donor and the restriction expires during the fiscal year, are reported as increases in unrestricted net assets. All other contributions are reported as increases in temporarily or permanently restricted net assets. Management considers all unconditional promises to give to be fully collectible at June 30, 2012 and 2011. Accordingly, no allowance for doubtful accounts has been recorded in the accompanying statements of financial position.

Land, Building and Equipment

It is the Organization's policy to capitalize land, building and equipment with cost in excess of \$5,000. All purchases less than that amount are expensed in the period incurred. Donated land, building and equipment are reported as contributions at their estimated fair value. Unless donor-restricted, all donated land, building and equipment are reported as increases in unrestricted net assets. Building and equipment are depreciated over their useful lives using the straight-line method. Useful lives range from three years for computer equipment to forty years for building.

Investments

The Organization accounts for investments in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") guidelines for not-for-profit organizations. Under these guidelines, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Investment income and realized and unrealized gains and losses are reported as changes in unrestricted net assets unless the use of income has been restricted by the donor. See Note 2 for additional information on fair value measurements.

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 period. Actual results could differ from those estimates.

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.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Organization follows FASB ASC guidance concerning the accounting for income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The guidance must be applied to all existing tax positions upon initial adoption. The Organization has not recognized any tax related interest and penalties in the accompanying financial statements. Federal tax years that remain open for examination include the years ended June 30, 2009 through June 30, 2012.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled \$0 and \$15,868 for the years ended June 30, 2012 and 2011, respectively.

Subsequent Events

The Organization evaluated subsequent events through November 5, 2012 when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the accompanying financial statements.

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Organization follows the provisions of the Fair Value Measurement Topic of the FASB ASC. This guidance establishes a framework for measuring fair value for financial assets and financial liabilities. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by the observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at June 30, 2012 and 2011.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments of the Organization represent units of ownership in certain common trust funds owned by the Diversified Trust Company. The Organization values these investments as Level 2 because the specific units held do not have quoted prices and are not traded on an active market.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Investments of the Organization are stated at fair value as of June 30, 2012 and 2011 and consist of the following:

	<u>2012</u>		<u>2011</u>	
	Fair Market Value	Quoted Prices in Active Markets for Identical Items (Level 2)	Fair Market Value	Quoted Prices in Active Markets for Identical Items (Level 2)
Mutual funds (held by Diversified Trust Company):				
Money market funds	\$ 174,596	\$ 174,596	\$ 17,684	\$ 17,684
Equity funds	2,059,651	2,059,651	2,191,068	2,191,068
Bond funds	<u>1,274,508</u>	<u>1,274,508</u>	<u>1,455,179</u>	<u>1,455,179</u>
	<u>\$ 3,508,755</u>	<u>\$ 3,508,755</u>	<u>\$ 3,663,931</u>	<u>\$ 3,663,931</u>

NOTE 3 – LAND, BUILDING AND EQUIPMENT

Land, building, and equipment consists of the following at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 89,000	\$ 89,000
Building	867,362	867,362
Building improvements	24,576	24,576
Equipment	<u>433,427</u>	<u>433,427</u>
	1,414,365	1,414,365
Less accumulated depreciation	<u>(733,728)</u>	<u>(673,175)</u>
	<u>\$ 680,637</u>	<u>\$ 741,190</u>

NOTE 4 – LINE OF CREDIT

The Organization has a \$335,000 line of credit available with a bank, which expires August 18, 2012. The line of credit bears interest at a rate of 3.25% and is secured by all receivables, land, building and equipment. The Organization also has a \$300,000 line of credit available with a bank, which expires January 10, 2013. The line of credit bears interest at a rate of 4% and is secured by certain business assets. No borrowings were outstanding at June 30, 2012 or 2011 for either line of credit.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes or periods at June 30:

	<u>2012</u>	<u>2011</u>
<u>United Way Programs</u>		
FACES	\$ 137,892	\$ 137,892
Helping People in Crisis	108,054	99,308
Counseling Practice Program	65,080	65,080
Napier Family Resource Center	51,000	43,950
Divorce and Bereavement Program	24,000	25,400
Park Avenue Family Resource Center	22,000	-
Survivors of Suicide Program	19,851	18,351
Relative Caregiver Program	3,240	3,239
Operations	<u>2,000</u>	<u>15,000</u>
Total United Way Programs	433,117	408,220
Program services	<u>125,875</u>	<u>111,740</u>
	<u>\$ 558,992</u>	<u>\$ 519,960</u>

NOTE 6 – DESIGNATED FOR ENDOWMENT NET ASSETS

Designated for endowment net assets consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
General Endowment	<u>\$ 2,183,125</u>	<u>\$ 2,183,125</u>

The interest earned on designated for endowment net assets is available to the Organization on an unrestricted basis.

The Organization's endowment consists of board designated funds held in investment accounts. As required by generally accepted accounting principles in the United States of America, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions and board designations.

Endowment Net Asset Composition by Type of Fund as of June 30, 2012 and 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	<u>\$ 2,183,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,183,125</u>

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 6 – DESIGNATED FOR ENDOWMENT NET ASSETS (Continued)

Endowment Investment Policy and Risk Parameters

The Organization follows investment and spending policies for endowment assets that attempt to supplement annual operating expenses, while allowing sufficient long-term growth to meet future capital and budgetary requirements. Endowment assets include funds designated by the board of directors. Prohibited investments include non-liquid securities, private placements, and futures (except for hedging purposes). The use of leverage for investment purposes is expressly prohibited.

Strategies Employed for Achieving Investment Objectives

To satisfy its long term rate of return objectives, the Organization relies on a targeted mix of investments as follows: 0 – 10% cash & cash equivalents; 30 – 50% fixed income; 50 – 70% equities; 0 – 10% real estate.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating monthly up to 5% of the average of the most recent thirty-six monthly investment balances, updated quarterly.

NOTE 7 – LEASES

The Organization has operating lease commitments for office space and equipment through fiscal year 2017. The following is a schedule of future minimum lease payments at June 30, 2012:

<u>Fiscal Year</u>	
2013	\$ 42,794
2014	6,036
2015	3,060
2016	3,060
2017	<u>255</u>
	<u>\$ 55,205</u>

Rent expense amounted to \$65,208 and \$87,003, respectively, for the years ended June 30, 2012 and 2011.

NOTE 8 – CONCENTRATION OF CREDIT RISK

The Organization may at times have cash amounts at financial institutions in excess of the amount insured by the Federal Deposit Insurance Corporation. Cash balances were within federally insured limits at June 30, 2012 and 2011.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 9 – CONCENTRATION OF REVENUE

The Organization receives a substantial amount of its revenue from federal and state grants and the United Way. A significant reduction in the amount received from either source could have an adverse effect on the operations of the Organization.

NOTE 10 – ASSUMPTION OF CONTRACTS

Effective June 8, 2012, the Organization assumed the rights and obligations of certain contracts entered into by Health Assist Tennessee (a not-for-profit organization). Subsequent to June 7, 2012, the Organization shall perform all obligations required under such contracts and will recognize all revenue generated and expenses incurred.

SUPPLEMENTAL INFORMATION

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year ended June 30, 2012

FEDERAL AWARDS

<u>Federal Grantor/Pass-Through Grantor</u>	<u>Program Name</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Receivable June 30, 2011</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Receivable June 30, 2012</u>
U.S. Department of Health and Human Services Passed Through:							
TN Dept. of Health and Human Services	Families First	93.558	GR-08-22022-05	\$ 98,721	\$ 98,721	\$ -	\$ -
TN Dept. of Health and Human Services	Families First	93.558	GR-08-22022-06	-	489,416	558,751	69,335
Total for CFDA No. 93.558 *+:				98,721	588,137	558,751	69,335
U.S. Department of Health and Human Services Passed Through:							
TN Dept. of Children's Services	Foster Care and Adoption	93.658	GR-12-38398	-		10,675	10,675
Total for CFDA No. 93.658*				-	-	10,675	10,675
U.S. Department of Justice Passed Through:							
TN Dept. of Finance and Administration Office of Criminal Justice	Domestic Violence Family	16.575	38280510	3,106	29,251	29,869	3,724
TN Dept. of Finance and Administration Office of Criminal Justice	Children Traumatized by Violence	16.575	38290510	8,221	83,604	85,599	10,216
Total for CFDA No. 16.575*				11,327	112,855	115,468	13,940
TN Dept. of Finance and Administration Office of Criminal Justice	JAGARRA	16.803	36320510	1,119	1,119	-	-
Total for CFDA No. 16.803*				1,119	1,119	-	-
Total Federal Awards				111,167	702,111	684,894	93,950

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
Year ended June 30, 2012

STATE AWARDS

<u>Federal Grantor/Pass-Through Grantor</u>	<u>Program Name</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Receivable June 30, 2011</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Receivable June 30, 2012</u>
TN Dept. of Health and Human Services	Families First-District 5	n/a	GR-08-22022-05#	53,157	53,157	-	-
TN Dept. of Health and Human Services	Families First	n/a	GR-08-22022-06#	-	163,139	186,250	23,111
TN Dept. of Children's Services	Foster Care and Adoption	n/a	GR-12-38398#	-	-	10,675	10,675
TN Dept. of Children's Services	Relative Caregiver Program	n/a	GR-11-31770	99,742	503,163	480,041	76,620
TN Dept. of Children's Services	Permanency Groups	n/a	GR-11-33580	68,870	68,870	-	-
TN Dept. of Children's Services	Permanency Groups	n/a	GR-12-36128	-	220,250	230,250	10,000
TN Dept. of Children's Services	Home Studies - Shelby Co.	n/a	FA-08-25307-00	1,774	17,765	15,991	-
TN Dept. of Children's Services	Home Studies - Upper Cumberland	n/a	FA-08-25513-00	-	1,375	2,324	949
Total State Awards				<u>223,543</u>	<u>1,027,719</u>	<u>925,531</u>	<u>121,355</u>
Total Federal and State Awards				<u>\$ 334,710</u>	<u>\$ 1,729,830</u>	<u>\$ 1,610,425</u>	<u>\$ 215,305</u>

*Cash grant receipts represent federal pass-through funds

+ Indicates a major program

Represents state's portion of grant

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal and State Awards is prepared on the accrual basis of accounting.



**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***

To the Board of Directors of
Family and Children's Service
Nashville, Tennessee

We have audited the financial statements of Family and Children's Service (a not-for-profit organization) as of and for the year ended June 30, 2012 and have issued our report thereon dated November 5, 2012. 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.

Internal Control Over Financial Reporting

Management of Family and Children's Service is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Family and Children's Service'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 Family and Children's Service'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 entity'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 Family and Children's Service'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 and use of management, the board of directors, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Frasier, Deen & Harsh, PLLC

November 5, 2012
Nashville, Tennessee



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Directors of
Family and Children's Service
Nashville, Tennessee

Compliance

We have audited Family and Children's Service's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Family and Children's Service's major federal programs for the year ended June 30, 2012. Family and Children's Service's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Family and Children's Service's management. Our responsibility is to express an opinion on Family and Children's Service's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Family and Children's Service's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Family and Children's Service's compliance with those requirements.

In our opinion, Family and Children's Services complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Family and Children's Service is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Family and Children's Service's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Family and Children's Service's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Frasier Den + Hand, PLLC

November 5, 2012
Nashville, Tennessee

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2012

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Family and Children's Service.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of Family and Children's Service were disclosed during the audit.
4. No significant deficiencies relating to the audit of major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Family and Children's Service expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program included:

CFDA Number
93.558

Name of Federal Program or Cluster
Families First

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Family and Children's Service qualified as a low-risk auditee.

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year ended June 30, 2012

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**FAMILY AND CHILDREN'S SERVICE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2012**

None.