

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

June 30, 2015 and 2014

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

Report on the Financial Statements

We have audited the accompanying financial statements of Family and Children's Service (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis and is 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2015, 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* in considering Family and Children's Service's internal control over financial reporting and compliance.

Frasier, Don & Hank PLLC

November 9, 2015
Nashville, Tennessee

FAMILY AND CHILDREN'S SERVICE
STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 526,405	\$ 626,867
Receivables from federal and state grants	119,995	143,964
Unconditional promises to give	328,887	275,442
Fee for service contract receivable	35,097	141,100
Other receivables	200,371	94,328
	<hr/>	<hr/>
Total current assets	1,210,755	1,281,701
Land, building and equipment, net	586,596	624,159
Investments	3,856,265	4,057,489
	<hr/>	<hr/>
Total assets	<u>\$ 5,653,616</u>	<u>\$ 5,963,349</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 42,669	\$ 40,961
Accrued payroll and benefits	140,598	135,678
	<hr/>	<hr/>
Total liabilities	183,267	176,639
	<hr/>	<hr/>
Net assets:		
Unrestricted:		
Designated	2,430,744	2,400,744
Undesignated	2,401,154	2,859,749
	<hr/>	<hr/>
Total unrestricted	4,831,898	5,260,493
Temporarily restricted	638,451	526,217
	<hr/>	<hr/>
Total net assets	5,470,349	5,786,710
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 5,653,616</u>	<u>\$ 5,963,349</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support from operations:			
Federal and state grants and fees	\$ 1,404,645	\$ -	\$ 1,404,645
United Way	663,891	328,887	992,778
Other grants	562,496	409,917	972,413
Program service fees	782,711	-	782,711
Contributions	156,349	25,000	181,349
Special events, net of direct benefit costs of \$60,438	161,633	-	161,633
Fee for service contract revenue	116,010	-	116,010
Miscellaneous income	671	-	671
Net assets released from restrictions	651,570	(651,570)	-
	<u>4,499,976</u>	<u>112,234</u>	<u>4,612,210</u>
Operating expenses:			
Program services	3,975,506	-	3,975,506
Management and general	638,707	-	638,707
Fundraising	294,196	-	294,196
	<u>4,908,409</u>	<u>-</u>	<u>4,908,409</u>
Change in net assets before investment activity	<u>(408,433)</u>	<u>112,234</u>	<u>(296,199)</u>
Investment activity:			
Interest and dividends	95,968	-	95,968
Realized and unrealized losses	(116,130)	-	(116,130)
	<u>(20,162)</u>	<u>-</u>	<u>(20,162)</u>
Change in net assets	(428,595)	112,234	(316,361)
Net assets - beginning of year	<u>5,260,493</u>	<u>526,217</u>	<u>5,786,710</u>
Net assets - end of year	<u><u>\$ 4,831,898</u></u>	<u><u>\$ 638,451</u></u>	<u><u>\$ 5,470,349</u></u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support from operations:			
Federal and state grants and fees	\$ 1,542,431	\$ -	\$ 1,542,431
Other grants	710,617	185,432	896,049
United Way	508,870	275,442	784,312
Program service fees	638,840	-	638,840
Fee for service contract revenue	609,200	-	609,200
Contributions	398,075	-	398,075
Special events, net of direct benefit costs of \$57,516	100,077	-	100,077
Miscellaneous income	208	-	208
Net assets released from restrictions	654,686	(654,686)	-
	<u>5,163,004</u>	<u>(193,812)</u>	<u>4,969,192</u>
Total revenue and other support from operations			
Operating expenses:			
Program services	4,240,585	-	4,240,585
Management and general	581,274	-	581,274
Fundraising	333,715	-	333,715
	<u>5,155,574</u>	<u>-</u>	<u>5,155,574</u>
Total operating expenses			
Change in net assets before investment activity	<u>7,430</u>	<u>(193,812)</u>	<u>(186,382)</u>
Investment activity:			
Interest and dividends	81,371	-	81,371
Realized and unrealized gains	391,588	-	391,588
	<u>472,959</u>	<u>-</u>	<u>472,959</u>
Total investment activity			
Change in net assets	480,389	(193,812)	286,577
Net assets - beginning of year	<u>4,780,104</u>	<u>720,029</u>	<u>5,500,133</u>
Net assets - end of year	<u><u>\$ 5,260,493</u></u>	<u><u>\$ 526,217</u></u>	<u><u>\$ 5,786,710</u></u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2015

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 2,630,617	\$ 468,351	\$ 170,415	\$ 3,269,383
Professional fees	294,678	15,431	52,785	362,894
Employee benefits	281,687	42,218	16,120	340,025
Payroll taxes	237,016	35,734	14,222	286,972
Financial aid	112,636	-	-	112,636
Travel	95,818	6,120	1,137	103,075
Equipment & building expense	71,405	9,015	8,953	89,373
Supplies	59,589	18,857	4,913	83,359
Telephone	63,056	10,161	3,504	76,721
Occupancy	45,909	6,939	3,027	55,875
Insurance	25,181	11,514	1,337	38,032
Depreciation	30,426	4,883	2,254	37,563
Conferences & meetings	10,125	2,156	2,246	14,527
Printing & publications	3,800	1,449	5,697	10,946
Postage	5,022	500	2,698	8,220
Miscellaneous	2,745	1,618	3,552	7,915
Organizational dues	2,079	3,371	1,165	6,615
Advertising	3,717	390	171	4,278
	<u>\$ 3,975,506</u>	<u>\$ 638,707</u>	<u>\$ 294,196</u>	<u>\$ 4,908,409</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2014

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 2,711,048	\$ 402,163	\$ 158,114	\$ 3,271,325
Professional fees	409,993	16,770	99,895	526,658
Employee benefits	269,637	30,059	16,374	316,070
Payroll taxes	246,017	32,974	13,671	292,662
Travel	134,030	6,275	3,443	143,748
Financial aid	122,395	-	-	122,395
Supplies	68,705	25,999	6,071	100,775
Equipment & building expense	62,321	11,732	8,996	83,049
Telephone	57,357	13,066	3,734	74,157
Occupancy	60,400	9,370	3,611	73,381
Depreciation	40,499	3,945	2,191	46,635
Insurance	25,301	11,642	1,748	38,691
Conferences & meetings	8,931	10,420	770	20,121
Printing & publications	6,698	1,108	8,851	16,657
Organizational dues	8,804	4,558	765	14,127
Postage	5,858	384	2,463	8,705
Miscellaneous	2,591	809	3,018	6,418
	<u>\$ 4,240,585</u>	<u>\$ 581,274</u>	<u>\$ 333,715</u>	<u>\$ 5,155,574</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (316,361)	\$ 286,577
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	37,563	46,635
Unrealized and realized losses (gains) on investments	116,130	(391,588)
Changes in operating assets and liabilities:		
Receivables from federal and state grants	23,969	161,770
Fee for service contract receivable	106,003	7,850
Unconditional promises to give	(53,445)	225,631
Other receivables	(106,043)	(46,222)
Accounts payable	1,708	(16,242)
Accrued payroll and benefits	4,920	20,552
Net cash (used in) provided by operating activities	<u>(185,556)</u>	<u>294,963</u>
Cash flows from investing activities:		
Proceeds from sale of investments	146,000	106,000
Purchase of investments	(60,906)	(47,216)
Purchase of building and equipment	<u>-</u>	<u>(37,905)</u>
Net cash provided by investing activities	<u>85,094</u>	<u>20,879</u>
Net (decrease) increase in cash and cash equivalents	(100,462)	315,842
Cash and cash equivalents - beginning of year	<u>626,867</u>	<u>311,025</u>
Cash and cash equivalents - end of year	<u><u>\$ 526,405</u></u>	<u><u>\$ 626,867</u></u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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 accounting principles generally accepted 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 and a capital campaign.

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.

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 had no permanently restricted net assets at June 30, 2015 or 2014.

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, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

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 restricted contributions are reported as increases in temporarily or permanently restricted net assets. 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.

Unconditional Promises to Give

Management considers all unconditional promises to give to be fully collectible at June 30, 2015 and 2014. Accordingly, no allowance for doubtful accounts has been recorded in the accompanying statements of financial position. All unconditional promises to give at June 30, 2015 are receivable within one year.

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 purchased. 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 a 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.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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, 2012 through June 30, 2015.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled \$4,278 and \$0 for the years ended June 30, 2015 and 2014, respectively.

Subsequent Events

The Organization evaluated subsequent events through November 9, 2015 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:

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

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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, 2015 and 2014.

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 are not traded on an active market.

The following level 2 investments are stated at fair market value as of June 30:

	<u>2015</u>	<u>2014</u>
Investments held by Diversified Trust Company:		
Money market funds	\$ 71,859	\$ 57,353
Equity funds	1,884,900	2,033,540
Bond funds	1,145,834	1,177,349
Alternative strategy securities	<u>753,672</u>	<u>789,247</u>
	<u>\$ 3,856,265</u>	<u>\$ 4,057,489</u>

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 3 – FEE FOR SERVICE CONTRACT RECEIVABLE AND CONTRACT REVENUE

The Organization has vendor contracts with the state of Tennessee and with the federal government whereby it is paid a fee for services provided. Contractual payments are received from the state of Tennessee and from the federal government. Revenue earned under these contracts totaled \$116,010 and \$609,200 for the years ended June 30, 2015 and 2014, respectively. Contract receivable totaled \$35,097 and \$141,100 as of June 30, 2015 and 2014, respectively.

NOTE 4 – LAND, BUILDING AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>
Land	\$ 89,000	\$ 89,000
Building	867,362	867,362
Building improvements	75,801	75,801
Equipment	<u>433,427</u>	<u>433,427</u>
	1,465,590	1,465,590
Less accumulated depreciation	<u>(878,994)</u>	<u>(841,431)</u>
	<u>\$ 586,596</u>	<u>\$ 624,159</u>

NOTE 5 – LINE OF CREDIT

The Organization has a \$300,000 line of credit available with a bank, which expires January 6, 2016. 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, 2015 and 2014.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2015</u>	<u>2014</u>
<u>United Way Programs</u>		
Family Resource Centers	\$ 207,000	\$ 154,000
Helping People in Crisis	28,052	28,441
Counseling Practice Program	75,000	75,000
Survivors of Suicide Program	17,280	17,642
Paydirect	<u>1,555</u>	<u>359</u>
Total United Way Programs	328,887	275,442
Program services	284,564	250,775
Contributions	<u>25,000</u>	<u>-</u>
	<u>\$ 638,451</u>	<u>\$ 526,217</u>

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 7 – BOARD DESIGNATED NET ASSETS

Board designated net assets consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Capital Campaign	\$ 217,619	\$ 217,619
General Endowment	<u>2,213,125</u>	<u>2,183,125</u>
	<u>\$ 2,430,744</u>	<u>\$ 2,400,744</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 accounting principles generally accepted 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, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ <u>2,213,125</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,213,125</u>

Changes in Endowment Net Assets for the fiscal year ended June 30, 2015:

Board designated endowment funds, beginning of year	\$ 2,183,125	\$ -	\$ -	\$ 2,183,125
General endowment designation	<u>\$ 30,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,000</u>
Board designated endowment funds, end of year	<u>\$ 2,213,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,213,125</u>

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 7 – BOARD DESIGNATED NET ASSETS (Continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2014:

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

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; 20 – 50% fixed income; 40 – 70% equities; 0 – 20% other securities.

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 8 – LEASES

The Organization has operating lease commitments for office space and equipment through fiscal year 2019. The following is a schedule of future minimum lease payments for the years ending June 30:

<u>Fiscal Year</u>	
2016	\$ 39,831
2017	25,426
2018	17,422
2019	<u>1,654</u>
	<u>\$ 84,333</u>

Rent expense amounted to \$57,618 and \$72,416, respectively, for the years ended June 30, 2015 and 2014.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 9 – 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. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

NOTE 10 – 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 these sources could have an adverse effect on the operations of the Organization.

NOTE 11 – GRANT AWARDED

Subsequent to June 30, 2015 and before the date of this report, the Organization was awarded a three year grant from the Department of Health and Human Services to support health navigation in federally facilitated and state partnership marketplaces. The Organization will receive approximately \$1.6 million each year through fiscal year 2018.

SUPPLEMENTAL INFORMATION

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2015

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, 2014</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Receivable June 30, 2015</u>
U.S. Department of Health and Human Services Passed Through:							
TN Dept. of Health and Human Services	Families First - temporary Assistance for Needy Families	93.558*	GR-13-38987	\$ 21,802	\$ 233,475	\$ 229,950	\$ 18,277
TN Dept. of Health and Human Services	Substance Abuse and Mental Health Services Administration	93.243*	1U79SM061329-01	-	58,937	58,937	-
TN Dept. of Mental Health and Substance Abuse Services	Tennessee Prevention Network	93.959*	GR-13-39334	60	24,840	40,180	15,400
TN Commission on Aging and Disability	State Health Insurance Assistance	93.324*	90SA0017-02-00	-	15,061	15,061	-
Total U.S. Department of Health and Human Services				<u>21,862</u>	<u>332,313</u>	<u>344,128</u>	<u>33,677</u>
U.S. Department of Justice Passed Through:							
TN Dept. of Finance and Administration Office of Criminal Justice	Domestic Violence and Trauma	16.575*	18805	<u>9,586</u>	<u>129,815</u>	<u>120,831</u>	<u>602</u>
U.S. Department of Transportation Passed Through:							
Nashville Metropolitan Transit Authority	Ways to Work	20.516*	2012357-C	<u>15,505</u>	<u>15,505</u>	<u>-</u>	<u>-</u>
Total Federal Awards				<u>46,953</u>	<u>477,633</u>	<u>464,959</u>	<u>34,279</u>

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
Year Ended June 30, 2015

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, 2014</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Receivable June 30, 2015</u>
TN Dept. of Health and Human Services	Families First	n/a	GR-13-38987#	44,264	473,633	466,443	37,074
Nashville Metropolitan Transit Authority	Ways to Work	n/a	2012357-C#	2,052	2,052	-	-
TN Dept. of Children's Services	Relative Caregiver Program	n/a	GR-11-31770	50,695	475,296	473,243	48,642
Total State Awards				97,011	950,981	939,686	85,716
Total Federal and State Awards				<u>\$ 143,964</u>	<u>\$ 1,428,614</u>	<u>\$ 1,404,645</u>	<u>\$ 119,995</u>

*Cash grant receipts represent federal pass-through funds

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.



**INDEPENDENT AUDITOR'S 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***

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

We have audited, 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, the financial statements of Family and Children's Service (the "Organization"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Frasier, Owen & Hart, PLLC

November 9, 2015
Nashville, Tennessee