FAMILY AND CHILDREN'S SERVICE AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

As of and for the Year Ended June 30, 2018

And Reports of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

TABLE OF CONTENTS

FAMILY AND CHILDREN'S SERVICE AND AFFILIATE

ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF

AS OF JUNE 30, 2018

Board of Directors

John M. Steele	President
Jim Kelley	Vice President
Kelly Holmes	Secretary/Finance
Anne Elizabeth McIntosh	Governance
Nancy Stabell	Board Representative
Evette White	Immediate Past President
Meg Rush	Board Member
Herman Hicks	Board Member
Rachel Albright	Board Member
Olatayo Atanda	Board Member
Mary Lee Barlett	Board Member
Jean Brandon	Board Member
Brett Burnell	Board Member
Todd Carter	Board Member
George H. Cate III	Board Member
Jane Corcoran	Board Member
Cullen Douglass	Board Member
Sarah Ann Ezzell	Board Member
Matt Harris	Board Member
Don Holmes	Board Member
Ellen Jacobs	Board Member
Vicki McCluggage	Board Member
Marlene Eskind Moses	Board Member
Beth O'Shea	Board Member
Perri duGard Owens	Board Member
Aylin Ozgener	Board Member
Shawn Pelletier	Board Member
Tony Rose, Jr.	Board Member
Alex Ryerson	Board Member
Tracey Silverman	Board Member
Earle Simmons	Board Member
Chad Tuck	Board Member
Joyce A. Vise	Board Member
Joni P. Werthan	Board Member
Rev. Neely Williams	Board Member
Whit Wilson	Board Member

Executive Staff

Michael McSurdy	President and CEO
Annabelle Cruz	VP of Finance & Administration

Report of Independent Auditor

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Family and Children's Service and Affiliate (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 January 21, 2019, on our consideration of the Organization'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 solely 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 effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Nashville, Tennessee
January 21, 2019

FAMILY AND CHILDREN'S SERVICE AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

ASSETS		
Current Assets:		
Cash and cash equivalents	$	6,870,931
Restricted cash		365,812
Receivables from federal and state grants		304,180
Unconditional promises to give, current		597,865
Other receivables		238,165
Total Current Assets		8,376,953
Unconditional promises to give, net, noncurrent		606,091
New market tax credit note receivable		6,990,000
Land, building, and equipment, net		4,519,120
Investments		3,767,502
Total Assets	$	24,259,666
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$	988,568
Accrued payroll and benefits		310,884
Total Current Liabilities		1,299,452
Note payable		1,530,000
New market tax credit debt, less unamortized debt issuance costs		9,703,314
Total Liabilities		12,532,766
Net Assets:		
Unrestricted:		
Designated		2,213,125
Undesignated		8,254,088
Total Unrestricted		10,467,213
Temporarily restricted		1,259,687
Total Net Assets		11,726,900
Total Liabilities and Net Assets	$	24,259,666

FAMILY AND CHILDREN'S SERVICE AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenue and Other Support from Operations:			
Federal and state grants and fees	$ 3,401,973	$ -	$ 3,401,973
Contributions (including $79,584 in in-kind)	701,076	770,257	1,471,333
Program service fees	1,059,463	-	1,059,463
Other grants	274,339	310,928	585,267
United Way	11,514	288,500	300,014
Special events	164,641	-	164,641
Miscellaneous income	40,658	-	40,658
Net assets released from restrictions	2,853,550	(2,853,550)	-
Total Revenue and Other Support from Operations	8,507,214	(1,483,865)	7,023,349
Operating Expenses:			
Program services	5,161,000	-	5,161,000
Management and general	937,879	-	937,879
Fundraising	419,883	-	419,883
Total Operating Expenses	6,518,762	-	6,518,762
Change in net assets before investment activity	1,988,452	(1,483,865)	504,587
Investment Activity:			
Interest and dividends	89,282	-	89,282
Realized and unrealized loss	141,388	-	141,388
Total Investment Activity	230,670	-	230,670
Change in net assets	2,219,122	(1,483,865)	735,257
Net assets, beginning of year	8,248,091	2,743,552	10,991,643
Net assets, end of year	$ 10,467,213	$ 1,259,687	$ 11,726,900

FAMILY AND CHILDREN'S SERVICE AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	Program Services	Management and General	Fundraising	Total
Salaries	$ 3,050,562	$ 519,628	$ 215,003	$ 3,785,193
Professional fees	858,247	66,690	43,814	968,751
Employee benefits	281,041	31,578	19,610	332,229
Payroll taxes	253,454	39,238	17,168	309,860
Miscellaneous	17,306	97,067	76,245	190,618
Travel	166,075	1,319	2,507	169,901
Financial aid	156,303	-	-	156,303
Supplies	87,052	21,371	12,977	121,400
Occupancy	61,438	47,960	5,796	115,194
Equipment and building expense	62,080	14,152	9,956	86,188
Telephone	53,808	4,644	1,543	59,995
Insurance	21,824	17,297	1,189	40,310
In-kind expense	39,880	-	-	39,880
Interest	-	37,946	-	37,946
Printing and publications	18,079	4,298	9,359	31,736
Amortization	-	22,822	-	22,822
Conferences and meetings	16,282	2,713	1,946	20,941
Organizational dues	2,072	8,767	436	11,275
Postage	7,833	389	2,334	10,556
Partnership and collaboration	7,664	-	-	7,664
	$ 5,161,000	$ 937,879	$ 419,883	$ 6,518,762

FAMILY AND CHILDREN'S SERVICE AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018

Cash flows from operating activities:	
Change in net assets	$ 735,257
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Contributions restricted for long term purposes	(768,892)
Donated equipment	(39,704)
Amortization	22,822
Unrealized and realized gain loss on investments	(141,388)
Changes in operating assets and liabilities:	
Receivables from federal and state grants	(24,905)
Unconditional promises to give	(355,414)
Other receivables	(96,414)
Prepaid expense	14,558
Accounts payable	959,040
Accrued payroll and benefits	45,492
Deferred grant revenue	(90,121)
Net cash provided by operating activities	260,331
Cash flows from investing activities:	
Proceeds from sale of investments	974,740
Purchase of investments	(886,073)
Issuance of note receivable	(6,990,000)
Purchase of building and equipment	(1,380,547)
Net cash used in investing activities	(8,281,880)
Cash flows from financing activities:	
Payments on note payable	(470,000)
Proceeds from note payable	2,000,000
Payments of deferred financing costs	(319,508)
Proceeds from new market tax credit debt	10,000,000
Proceeds restricted for long term purposes	1,697,856
Net cash provided by financing activities	12,908,348
Net increase in cash and cash equivalents, and restricted cash	4,886,799
Cash and cash equivalents, and restricted cash, beginning of year	2,349,944
Cash and cash equivalents, and restricted cash, end of year	$ 7,236,743
Supplemental disclosure of cash flow information:	
Interest paid	$ 37,946
Noncash investing and financing activities:	
Payments of long-term debt through refinancing	$ 1,951,785
Donated equipment	$ 39,704

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

Note 1—Nature of activity and summary of significant accounting policies

Nature of Activity – The purpose of Family and Children's Service ("FCS") is to make best-practice mental and physical 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, healthcare support, and family and individual counseling for addiction, depression, marriage, and relationship issues. FCS serves various regions throughout the state of Tennessee.

FCS established the FCS New Market Landlord, Inc. ("FCS New Market") on November 2, 2017 solely to support the charitable purposes, mission, goals, and activities of FCS, its sole member. As such, FCS New Market's activities include constructing FCS's new headquarters and servicing certain notes payable for the benefit of FCS (see Note 7).

Principles of Consolidation – The accompanying consolidated financial statements include those of the FCS and FCS New Market (collectively referred to hereafter as the "Organization"). The Organizations has been consolidated due to the presence of common control and economic interest as required by accounting principles generally accepted in the United States of America ("GAAP"). All significant inter-entity balances and transactions have been eliminated in consolidation.

Financial Statement Presentation – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with GAAP. 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 of Directors ("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.

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, 2018.

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.

Contributions – Contributions are recognized when a donor makes an unconditional promise to give to the Organization. Contributions that are not restricted 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 consolidated statement of activities as net assets released from restrictions.

Note 1—Nature of activity and summary of significant accounting policies (continued)

Unconditional Promises to Give – Unconditional promises to give that are expected to be collected in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of estimated future cash flows. The discounts on promises to give are computed using a rate commensurate with the risk of the promise to give in accordance with GAAP. Amortization of the discount is included in contribution revenue in the consolidated statement of activities. Management considers all unconditional promises to give to be fully collectible at June 30, 2018. Accordingly, no allowance for doubtful accounts has been recorded in the accompanying consolidated statement 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 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 estimated useful lives using the straight-line method. Useful lives range from three years for computer equipment to forty years for a building.

Investments – Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated statement 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 3 for additional information on fair value measurements.

Estimates – The preparation of consolidated financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – FCS and FCS New Market are not-for-profit organizations that are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made. Management believes that the Organization continues to satisfy the requirements of a tax-exempt organization as of June 30, 2018.

Functional Allocation of Expenses – The costs of providing programs and supporting services have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon management's estimate.

Accounting Policies for Future Pronouncements – In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes presentation and disclosure requirements of not-for-profit entities. The primary changes are decreases in the number of net asset classes from three to two, reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, continues to allow preparers to choose between the direct method and indirect method for presenting operating cash flows, requires disclosures of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks and requires reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature. This standard will be effective for the fiscal year ending June 30, 2019.

Note 1—Nature of activity and summary of significant accounting policies (continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for the Organization for the fiscal year ending June 30, 2020. The Organization is currently evaluating the effect of the implementation of this new standard.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right of use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the fiscal year ending June 30, 2021. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The standard provides guidance on determining whether a transaction should be accounted for as contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. The standard also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. The standard will be effective for the fiscal year ending June 30, 2020. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

Subsequent Events – The Organization evaluated subsequent events through January 21, 2019 when these consolidated financial statements were available to be issued.

Note 2—Unconditional promises to give

Unconditional promises to give consist of the following at June 30, 2018:

Capital campaign pledges	$	915,456
United Way promises to give		288,500
	$	1,203,956
Receivable in less than one year	$	597,865
Receivable in one to five years		633,366
		1,231,231
Less unamortized discount		(27,275)
	$	1,203,956

Note 3—Investments and fair value measurements

GAAP 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.

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; and
- 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, 2018.

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.

Certain investments of the Organization represent units of ownership in common trust funds owned by 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 table sets forth the Organization's major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Equity funds	$ 1,614,583	$ 788,925	$ -	$ 2,403,508
Bond funds	434,911	414,510	-	849,421
Multi-strategy funds	-	445,871	-	445,871
Money market funds	68,702	-	-	68,702
	$ 2,118,196	$ 1,649,306	$ -	$ 3,767,502

Note 4—Land, building, and equipment

Land, building, and equipment consist of the following at June 30, 2018:

Equipment	$	329,028
Construction in progress (future headquarters)		4,519,120
		4,848,148
Less accumulated depreciation		(329,028)
	$	4,519,120

There was no depreciation expense for the year ended June 30, 2018.

Note 5—Line of credit

The Organization has a $300,000 line of credit available with a bank that expires January 25, 2019. The line of credit bears interest at a rate of 5% and is secured by certain business assets. No borrowings were outstanding at June 30, 2018.

Note 6—Note payable

During December 2017, the Organization borrowed $1,951,785 from a financial institution to serve as a bridge loan to finance a portion of its investment in the New Market Tax Credit transaction (see Note 7). The note required monthly interest only payments at a rate of 3.8% plus principal payments due semi-annually, scheduled to mature December 2020, and was secured by the Organization's deposits and investments maintained by the lender. This note was paid off with borrowings from another commercial lender as described in the following paragraph.

During January 2018, the Organization borrowed $2,000,000 from a commercial lender to pay off the note payable described in the previous paragraph. This note payable has a maturity date of February 2021 and requires monthly interest only payments at a rate of 4.5%. The note payable is secured by the Organization's investments. The balance due at June 30, 2018 totaled $1,530,000.

Note 7—New Market Tax Credit agreement

During December 2017, the Organization entered into a New Market Tax Credit ("NMTC") agreement to assist with the construction of its new headquarters. The Organization will realize a projected benefit in positive cash flow from federal incentives totaling approximately $2,400,000 (unaudited) for the NMTC financing transaction. All loans originated in the NMTC financing transactions are secured by substantially all assets and revenues of the Organization whether owned as of the date of the agreement or thereafter.

In December 2017, FCS New Market entered into two debt agreements to borrow $10,000,000 from Partnerships of Hope XV, LLC (a "community development financial institution"). The notes require quarterly payments of interest only at 1.13% per annum until December 2024. Thereafter, annual principal and interest payments totaling approximately $494,000 per annum are due until December 2047. Financing fees deferred related to the notes totaled approximately $319,500 with approximately $23,000 amortized during the year ended June 30, 2018. The notes contain certain nonfinancial covenants which require management's representations that the loans will qualify as a "qualified low-income community investment" based on the ongoing activities of the Organization and its continuing mission.

Note 7—New Market Tax Credit agreement (continued)

Furthermore, FCS provided a loan of $6,990,000 to FCS Investment Fund, LLC. The loan is evidenced by a promissory note receivable from FCS Investment Fund, LLC, accruing interest at 1.00% per annum, and requiring quarterly interest only payments until December 2024 at which point the loan will begin to amortize on a straight-line basis through maturity in December 2047.

As part of this transaction FCS New Market is required to maintain a segregated loan reserve fund for payment of the servicing fee in compliance with the note payable. The initial deposit was $387,500 and will cover annual payments totaling approximately $42,000. FCS New Market will continue making such expense reimbursements even after the funds in the reserve account have been fully disbursed. The amount of restricted cash as of June 30, 2018 totaled approximately $366,000.

In December 2024, the bank that owns the unaffiliated investment structure may put its interest in the investments structure to FCS New Market for a put price of $1,000. If the bank does not exercise its put right, FCS New Market may call the bank's interest in the investment structure for a call price equal to the fair value of the investment. Exercise of the put or the call will provide FCS New Market with ownership of the investment structure.

Note 8—Temporarily restricted net assets

Temporarily restricted net assets are restricted for the following purposes or periods at June 30, 2018:

United Way Programs:		
Family Resource Centers	$	197,000
Helping People in Crisis		10,000
Counseling Practice Program		75,000
Survivors of Suicide Program		6,500
Total United Way Programs		288,500
Capital campaign contributions		915,456
Program services		54,180
Other		1,551
	$	1,259,687

Note 9—Board designated net assets

As of June 30, 2018, net assets totaling $2,213,125 are designated by the Board for the general endowment. 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 GAAP, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions and Board designations.

Note 9—Board designated net assets (continued)

Endowment net asset composition by type of fund as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	$ 2,213,125	$ -	$ -	$ 2,213,125

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. 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 36 monthly investment balances, updated quarterly.

Note 10—Leases

The Organization has operating lease commitments for office space and equipment through fiscal year 2022. The following is a schedule of future minimum lease payments for the years ending June 30:

Fiscal Years Ending June 30,	
2019	$ 25,655
2020	20,251
2021	3,721
2022	1,294
	$ 50,921

Rent expense amounted to approximately $110,000 for the year ended June 30, 2018.

Note 11—Concentrations

The Organization's cash account balances at June 30, 2018 exceeded Federal Deposit Insurance Corporation insurance limits by approximately $6,674,000. 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 11—Concentrations (continued)

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.

As of June 30, 2018 and for the year then ended, 83% of unconditional promises to give were received from three donors, respectively.

Note 12—Affiliation agreement

Effective July 1, 2016 the Organization entered into an affiliation agreement with CASA, Inc., wherein the Organization provides operational and financial management services to CASA, Inc. as detailed in the agreement. The agreement was renewed July 1, 2017 and will automatically renew annually unless terminated by either party. As of June 30, 2018, CASA, Inc. owes the Organization approximately $93,000 and this amount is included in other receivables on the consolidated statement of financial position.

SUPPLEMENTAL INFORMATION

FAMILY AND CHILDREN'S SERVICE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Expenditures	Passed to Subrecipients
FEDERAL AWARDS					
U.S. Department of Health and Human Services	Cooperative Agreement to Support Navigators in Federally-facilitated and State Partnership Marketplaces	93.332+	6NAVCA150262-02-01	$ 1,635,368	$ 279,494
U.S. Department of Health	Project AWARE RobCo	93.243	5H79SM062711-02	40,807	-
and Human Services	Project AWARE RobCo	93.243	5H79SM062711-03	79,426	-
				120,233	-
U.S. Department of Health and Human Services Passed Through:					
TN Dept. of Health and Human Services	Family Focused Solutions	93.558*	34530-40318	231,549	-
Total TANF Cluster				231,549	-
TN Dept. of Finance and Administration	Access Tennessee	93.778*	31865-00458	43,431	-
TN Dept. of Finance and Administration	Access Tennessee	93.778*	31865-00458-02	97,096	-
Upper Cumberland Area Agency on Aging and Disability	Senior Medicare Patrol	93.775*		1,417	-
Total Medicaid Cluster				141,944	-
TN Dept. of Mental Health and Substance Abuse Services	Tennessee Prevention Network	93.959*	DGA 53539_2017-2018_006	45,000	-
TN Commission on Aging and Disability	Medicare Enrollment Assistance	93.071*	31602-15066-1	11,781	-
TN Commission on Aging and Disability	Medicare Enrollment Assistance	93.071*	31602-18044	37,221	-
				94,002	-
TN Commission on Aging and Disability	State Health Insurance Program	93.324*	31602-18007-1	64,322	-
TN Commission on Aging and Disability	State Health Insurance Program	93.324*	31602-18069-1	16,281	-
				80,603	-
TN Dept. of Children's Services	Child Abuse Prevention	93.590*	35910-1320	8,529	-
Total U.S. Department of Health and Human Services				2,312,228	279,494
U.S. Department of Justice Passed Through:					
TN Dept. of Finance and Administration Office of Criminal Justice	Domestic Violence and Trauma	16.575*	2014-VA-GX-0008	120,272	-
Prevent Child Abuse TN (PCAT)	Domestic Violence Helpline	16.unknown*	PCAT # 26752	30,000	-
TN Commission on Children and Youth	Clinical Case Management	16.540*	31601-DP06-17	36,282	-
Total U.S. Department of Justice				186,554	-
Total Federal Awards				2,498,782	279,494

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Expenditures	Passed to Subrecipients
STATE AWARDS					
TN Dept. of Health and Human Services	Family Focused Solutions	n/a	34530-40318	$ 470,113	$ -
TN Dept. of Mental Health	Redline and Gambling Line	n/a		20,000	-
TN Dept. of Children's Services	Relative Caregiver Program	n/a	35910-01891	495,204	-
TN Dept. of Children's Services	Child Abuse Prevention	n/a	35910-1320	20,471	-
TN Dept. of Children's Services Passed Through: Monroe Harding	Adverse Childhood Experiences Initiative	n/a	35910-02660	44,460	-
Total State Awards				1,050,248	-
Total Federal and State Awards				$ 3,549,030	$ 279,494

* Cash grant receipts represent federal pass-through funds

\+ Denotes major program

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state award activity of Family and Children's Service under programs of federal and state governments for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Family and Children's Service, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Family and Children's Service.

Note 2—Indirect cost rate

Family and Children's Service expended indirect costs using a multiple allocation base method and did not elect to use the 10% de minimis cost rate allowed under the Uniform Guidance.

Note 3—Subrecipients

Of the federal and state expenditures presented in the Schedule, the Organization for program Cooperative Agreement to Support Navigators in Federally-facilitated and State Partnership Marketplaces (CFDA 93.332), provided $279,494 of federal awards to subrecipients.

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor 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
Family and Children's Service and Affiliate
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 consolidated financial statements of Family and Children's Service and Affiliate (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 21, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated 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 the 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

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 consolidated 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*.

The Organization's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

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.

Cherry Bekaert LLP

Nashville, Tennessee
January 21, 2019

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited Family and Children's Service and Affiliate (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2018. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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 the Organization'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of 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, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-002. Our opinion on each major federal program is not modified with respect to this matter.

The Organization's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Organization'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 or corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identity certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-002 that we consider to be a significant deficiency.

The Organization's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Cherry Bekaert LLP

Nashville, Tennessee
January 21, 2019

Section I - Summary of Audit Results

Financial Statement Section

Type of auditor's report issued on whether financial statements were prepared in accordance with GAAP:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?	x	Yes		No
Significant deficiency(ies) identified		Yes	x	None Reported
Noncompliance material to financial statements noted		Yes	x	No

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?		Yes	x	No
Significant deficiency(ies) identified	x	Yes		None Reported
Type of auditor's report on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	x	Yes		No

Identification of Major Programs

Name of Federal Program or Cluster	CFDA Number(s)
Cooperative Agreement to Support Navigators in Federally-facilitated and State Partnership Marketplaces	93.332

Dollar threshold used to distinguish between type A and type B programs	$ 750,000			
Auditee qualified as low-risk auditee?	x	Yes		No

Section II—Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Government Auditing Standards.

Finding 2018-001 – Material Weakness over Financial Reporting and Close

Criteria: An effective system of internal control contemplates that management can properly maintain the books and record all necessary transactions to ensure that the consolidated financial statements are not materially misstated.

Condition: During the audit, the independent auditor proposed material adjustments necessary to properly record capital campaign pledges and contributions, construction in process, and intercompany transactions related to FCS New Market activities. These entries included adjustments to record 1) approximate $3,100,000 entry to properly record capital campaign pledges and contributions 2) approximate $868,000 entry to record the accrual of construction in process work completed 3) approximate $320,000 to record deferred financing costs; $10,000,000 entry to record FCS New Market debt; and $6,990,000 to record the FCS note receivable related to FCS New Market

Effect: The general ledger was misstated.

Cause: Internal controls were not sufficient to prevent a material misstatement from occurring.

Recommendation: The Organization should allocate sufficient resources to ensure that any required expertise in complicated transactions is retained in the finance function until the records are closed.

Management's Response: Management agrees with the finding.

Section III—Findings and Questioned Costs – Major Federal Awards

This section identifies the significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs, as well as any material abuse findings, related to the audit of major programs, as required to be reported by 2 CFR 200.516(a).

Finding 2018-002 – Significant Deficiency in Internal Control over Allowable Costs for the Cooperative Agreement to Support Navigators in Federally-facilitated and State Partnership Marketplaces Program

Criteria: An effective system of internal control contemplates that management can properly ensure compliance to the grant requirements.

Condition: During the audit, 40 selections were tested for controls. Three exceptions were noted where controls did not identify unallowable costs. The unallowable costs totaled approximately $5,300.

Effect: The Organization had costs charged to the grant that were unallowable.

Cause: The Organization did not have proper controls in place to ensure allowable costs were charged to the grant.

Recommendation: We recommend that controls and procedures be put in place to ensure compliance with the grant.

Management's Response: Management agrees with the finding.

Schedule of Prior Year Audit Findings

Finding 2017-001 – Significant Deficiency in the Indirect Cost Allocation

Finding: The indirect costs for the major federal award program were mistakenly calculated and withdrew an excess of costs incurred as of June 30, 2017.

Status: The finding was corrected in the 2018 fiscal year.

FAMILY & CHILDREN'S

CORRECTIVE ACTION PLAN
Family & Children's Service
June 30, 2018 Audit

2018-001: **Material Weakness over Financial Reporting and Close**

Grantee Response: Family & Children's Service agrees with the noted audit finding. The agency will secure the services of a CPA for assistance reviewing all entries to properly record new market tax credit ("NMTC"), capital campaign, and intercompany transactions.

Person responsible: Annabelle Cruz, VP of Finance & Administration.

Completion date: February 28, 2018

2018-002: **Significant Deficiency in Internal Control over Allowable Costs for the Cooperative Agreement to Support Navigators in Federally-facilitated and State Partnership Marketplaces Program**

Grantee Response: Family & Children's Service agrees with the noted audit finding. The agency will develop proper controls to ensure that only allowable costs are charged to the grants. Training will be provided to the Accounting Manager regarding grant restrictions on allowable costs.

Person responsible: Annabelle Cruz, VP of Finance & Administration.

Completion date: February 28, 2018