

FAMILY AND CHILDREN'S SERVICE

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

June 30, 2010 and 2009

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 (a nonprofit organization) as of June 30, 2010 and 2009, 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 the 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, 2010 and 2009, 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 8, 2010, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal and state 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 not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Fraser, Dem & Howard, PLLC

November 8, 2010

FAMILY AND CHILDREN'S SERVICE
STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 670,066	\$ 509,589
Receivables from federal and state grants	197,672	141,848
Unconditional promises to give	444,367	464,475
Other receivables	36,072	32,159
Total current assets	1,348,177	1,148,071
Land, building and equipment, net	703,063	752,586
Investments	3,262,151	3,014,983
Total assets	<u>\$ 5,313,391</u>	<u>\$ 4,915,640</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 127,193	\$ 72,641
Accrued payroll and benefits	135,546	94,299
Total liabilities	262,739	166,940
Net assets:		
Unrestricted:		
Designated for endowment	2,183,126	2,183,126
Other unrestricted	2,350,023	2,043,535
Total unrestricted	4,533,149	4,226,661
Temporarily restricted	517,503	522,039
Total net assets	5,050,652	4,748,700
Total liabilities and net assets	<u>\$ 5,313,391</u>	<u>\$ 4,915,640</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF ACTIVITIES
Year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support from operations:			
Federal and state grants and fees	\$ 2,069,763	\$ -	\$ 2,069,763
United Way	516,895	444,367	961,262
Other grants	352,805	30,875	383,680
Contributions	152,950	2,000	154,950
Program service fees	4,302	-	4,302
Special events, net of direct benefit costs of \$26,886	88,630	-	88,630
Net assets released from restrictions	481,778	(481,778)	-
	<u>3,667,123</u>	<u>(4,536)</u>	<u>3,662,587</u>
Total revenue and other support from operations			
Operating expenses:			
Program services	3,074,305	-	3,074,305
Management and general	400,477	-	400,477
Fundraising	269,686	-	269,686
	<u>3,744,468</u>	<u>-</u>	<u>3,744,468</u>
Total operating expenses			
Change in net assets before investment activity	<u>(77,345)</u>	<u>(4,536)</u>	<u>(81,881)</u>
Investment activity:			
Interest and dividends	85,826	-	85,826
Realized and unrealized gains	298,007	-	298,007
	<u>383,833</u>	<u>-</u>	<u>383,833</u>
Total investment income			
Change in net assets	306,488	(4,536)	301,952
Net assets - beginning of year	<u>4,226,661</u>	<u>522,039</u>	<u>4,748,700</u>
Net assets - end of year	<u>\$ 4,533,149</u>	<u>\$ 517,503</u>	<u>\$ 5,050,652</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF ACTIVITIES
Year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support from operations:			
Federal and state grants and fees	\$ 2,284,826	\$ -	\$ 2,284,826
United Way	515,763	450,475	966,238
Other grants	410,214	7,000	417,214
Contributions	137,375	2,982	140,357
Program service fees	28,332	-	28,332
Special events, net of direct benefit costs of \$49,753	105,799	-	105,799
Net assets released from restrictions	595,246	(595,246)	-
	<u>4,077,555</u>	<u>(134,789)</u>	<u>3,942,766</u>
Total revenue and other support from operations			
Operating expenses:			
Program services	3,342,996	-	3,342,996
Management and general	441,832	-	441,832
Fundraising	317,168	-	317,168
	<u>4,101,996</u>	<u>-</u>	<u>4,101,996</u>
Total operating expenses			
Change in net assets before investment activity	<u>(24,441)</u>	<u>(134,789)</u>	<u>(159,230)</u>
Investment activity:			
Interest and dividends	104,165	-	104,165
Realized and unrealized losses	(763,897)	-	(763,897)
	<u>(659,732)</u>	<u>-</u>	<u>(659,732)</u>
Total investment loss			
Change in net assets	(684,173)	(134,789)	(818,962)
Net assets - beginning of year	<u>4,910,834</u>	<u>656,828</u>	<u>5,567,662</u>
Net assets - end of year	<u>\$ 4,226,661</u>	<u>\$ 522,039</u>	<u>\$ 4,748,700</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2010

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 2,039,458	\$ 110,033	\$ 127,294	\$ 2,276,785
Professional fees	164,811	85,666	48,214	298,691
Payroll Taxes	171,322	41,434	6,914	219,670
Employee benefits	150,630	24,101	3,017	177,748
Financial aid	118,452	542	-	118,994
Occupancy	95,652	10,237	2,558	108,447
Travel	83,039	24,389	962	108,390
Equipment and building expense	47,160	10,719	10,299	68,178
Supplies	43,968	18,263	3,289	65,520
Telephone	33,476	13,037	941	47,454
Advertising	-	9,281	32,167	41,448
Insurance	23,659	11,432	893	35,984
Miscellaneous	16,721	5,724	11,289	33,734
Depreciation	28,354	3,690	1,173	33,217
Conferences and meetings	10,179	9,282	3,500	22,961
Organizational dues	13,694	5,698	961	20,353
Printing and publications	1,961	15,794	114	17,869
Loss on equipment disposal	16,306	-	-	16,306
Bad debt	-	-	14,000	14,000
Lifeworks	10,265	-	-	10,265
Postage	4,373	1,155	2,101	7,629
Partnership collaboration	825	-	-	825
	<u>\$ 3,074,305</u>	<u>\$ 400,477</u>	<u>\$ 269,686</u>	<u>\$ 3,744,468</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2009

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 2,105,660	\$ 167,253	\$ 194,228	\$ 2,467,141
Professional fees	209,240	68,249	14,346	291,835
Employee benefits	236,137	41,046	13,253	290,436
Payroll taxes	162,976	39,185	10,989	213,150
Financial aid	135,600	-	-	135,600
Occupancy	96,082	13,493	4,333	113,908
Travel	99,117	14,462	244	113,823
Equipment and building expense	61,642	12,460	10,735	84,837
Supplies	59,401	20,300	1,676	81,377
Telephone	37,492	7,372	1,948	46,812
Depreciation	37,917	5,118	2,099	45,134
Insurance	23,943	14,820	2,615	41,378
Miscellaneous	20,402	6,167	11,069	37,638
Advertising	5,794	1,600	28,757	36,151
Conferences and meetings	15,583	17,510	949	34,042
Organizational dues	17,017	11,185	1,266	29,468
Printing and publications	2,540	690	15,137	18,367
Postage	4,469	922	3,524	8,915
Partnership collaboration	7,094	-	-	7,094
Bad debt	4,890	-	-	4,890
	<u>\$ 3,342,996</u>	<u>\$ 441,832</u>	<u>\$ 317,168</u>	<u>\$ 4,101,996</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENTS OF CASH FLOWS
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 301,952	\$ (818,962)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	33,217	45,134
Unrealized and realized (gains) losses on investments	(298,007)	763,897
Loss on disposal of equipment	16,306	-
Changes in operating assets and liabilities:		
Receivables from federal and state grants	(55,824)	77,625
Unconditional promises to give	20,108	32,787
Other receivables	(3,913)	4,159
Accounts payable and accrued expenses	54,552	(28,262)
Accrued payroll and benefits	41,247	(30,195)
Net cash provided by operating activities	<u>109,638</u>	<u>46,183</u>
Cash flows from investing activities:		
Proceeds from sale of investments	120,840	184,801
Purchase of investments	(70,001)	(92,793)
Purchase of equipment	<u>-</u>	<u>(4,703)</u>
Net cash provided by investing activities	<u>50,839</u>	<u>87,305</u>
Net increase in cash and cash equivalents	160,477	133,488
Cash and cash equivalents - beginning of year	<u>509,589</u>	<u>376,101</u>
Cash and cash equivalents - end of year	<u><u>\$ 670,066</u></u>	<u><u>\$ 509,589</u></u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year ended June 30, 2010

FEDERAL AWARDS

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2009	Cash Receipts	Expenditures	Receivable June 30, 2010
U.S. Department of Health and Human Services Passed Through:							
TN Dept. of Health and Human Services	Families First-District 5	93.558	GR-08-22022-02	\$ 71,505	\$ 71,505	\$ -	\$ -
TN Dept. of Health and Human Services	Families First-District 5	93.558	GR-08-22022-03	-	376,320	411,090	34,770
TN Dept. of Health and Human Services	Families First-District 6	93.558	GR-08-22041-02	20,118	20,118	-	-
TN Dept. of Health and Human Services	Families First-District 6	93.558	GR-08-22041-03	-	130,965	142,061	11,096
Total for CFDA No. 93.558 **				91,623	598,908	553,151	45,866
U.S. Department of Justice Passed Through:							
TN Dept. of Finance and Administration Office of Criminal Justice	Crime Victim Assistance	16.575	Z-07-033126-01	1,574	1,574	-	-
TN Dept. of Finance and Administration Office of Criminal Justice	Crime Victim Assistance	16.575	Z-07-033140-01	4,239	4,239	-	-
TN Dept. of Finance and Administration Office of Criminal Justice	Domestic Violence Family	16.575	38280510	-	26,741	29,721	2,980
TN Dept. of Finance and Administration Office of Criminal Justice	JAGARRA	16.575	36320510	-	23,959	25,967	2,008
TN Dept. of Finance and Administration Office of Criminal Justice	Children Traumatized by Violence	16.575	38290510	-	78,395	86,432	8,037
Total for CFDA No. 16.575*				5,813	134,908	142,120	13,025
Total Federal Awards				97,436	733,816	695,271	58,891

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
Year ended June 30, 2010

STATE AWARDS

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2009	Cash Receipts	Expenditures	Receivable June 30, 2010
TN Dept. of Health and Human Services	Families First-District 5	n/a	GR-08-22022-02#	23,835	23,835	-	-
TN Dept. of Health and Human Services	Families First-District 5	n/a	GR-08-22022-03#	-	125,440	137,030	11,590
TN Dept. of Health and Human Services	Families First-District 6	n/a	GR-08-22041-02#	6,706	6,706	-	-
TN Dept. of Health and Human Services	Families First-District 6	n/a	GR-08-22041-03#	-	43,655	47,354	3,699
TN Dept. of Children's Services	Relative Caregiver Program	n/a	GR-06-17231-02	(3,668)	469,484	539,071	65,919
TN Dept. of Children's Services	Permanency Groups	n/a	GR-10-29108-00#	-	577,758	632,692	54,934
TN Dept. of Children's Services	Permanency Groups	n/a	GR-09-26035-01#	13,415	13,415	-	-
TN Dept. of Children's Services	Home Studies - Shelby Co.	n/a	FA-08-25307-00	825	2,725	3,275	1,375
TN Dept. of Children's Services	Home Studies - Upper Cumberland	n/a	FA-08-25513-00	3,299	17,105	15,070	1,264
Total State Awards				44,412	1,280,123	1,374,492	138,781
Total Federal and State Awards				\$ 141,848	\$ 2,013,939	\$ 2,069,763	\$ 197,672

*Cash grant receipts represent federal pass-through funds

Represents state's portion of grant

+ Indicates a major program

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

NOTE 1 - BASIS OF ACCOUNTING

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

**FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009**

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.

Accounting Standards Codification

The Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") became the sole authoritative source of generally accepted accounting principles in the United States of America for periods ending after September 15, 2009. The FASB ASC incorporates all authoritative literature previously issued by a standard setter. Adoption of the FASB ASC has no effect on the Organization's financial statements.

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. Currently all such net assets have been 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.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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, 2010 or 2009.

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.

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, 2010 and 2009. 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 over \$5,000. All purchases less than that amount are expensed in the period incurred. Donated land, building and equipment is reported as contributions at its 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 standards of accounting prescribed for not-for-profit organizations. Under these standards, 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.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 certain reported amounts and disclosures. 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.

On January 1, 2009, the Organization adopted FASB ASC guidance concerning the accounting for income taxes recognized in an entity's financial statements. This interpretation 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, 2007 through June 30, 2010. Adoption of this pronouncement had no impact on the Organization's financial position or results of operations.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled \$41,448 and \$36,151 for the years ended June 30, 2010 and 2009, respectively.

Subsequent Events

The Organization evaluated subsequent events through November 8, 2010, 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 – FAIR VALUE OF INVESTMENTS

Effective January 1, 2008, the Organization adopted 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. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The asset's or liability's fair

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 2 – FAIR VALUE OF INVESTMENTS (Continued)

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. The applicable 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 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 fair value of Level 1 assets was determined by obtaining quoted market prices in active markets.

Investments of the Organization are stated at fair value as of June 30, 2010 and 2009 and consist of the following:

	2010		2009	
	Fair Market Value	Quoted Prices in Active Markets for Identical Items (Level 1)	Fair Market Value	Quoted Prices in Active Markets for Identical Items (Level 1)
Mutual funds (held by Diversified Trust Company):				
Money market funds	\$ 18,193	\$ 18,193	\$ 54,397	\$ 54,397
Equity funds	1,716,568	1,716,568	1,655,546	1,655,546
Bond funds	1,433,493	1,433,493	1,212,767	1,212,767
Real estate and other	93,897	93,897	92,273	92,273
	<u>\$ 3,262,151</u>	<u>\$ 3,262,151</u>	<u>\$ 3,014,983</u>	<u>\$ 3,014,983</u>

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 2 – FAIR VALUE OF INVESTMENTS (Continued)

The following schedule summarizes the investment return at June 30:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 85,826	\$ 104,165
Realized and unrealized gains (losses)	<u>298,007</u>	<u>(763,897)</u>
	<u>\$ 383,833</u>	<u>\$ (659,732)</u>

NOTE 3 – LAND, BUILDING AND EQUIPMENT

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

	<u>2010</u>	<u>2009</u>
Land	\$ 89,000	\$ 89,000
Building	867,362	867,362
Building improvements	15,553	15,553
Equipment	<u>612,796</u>	<u>649,079</u>
	1,584,711	1,620,994
Less accumulated depreciation	<u>(881,648)</u>	<u>(868,408)</u>
	<u>\$ 703,063</u>	<u>\$ 752,586</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. No borrowings were outstanding at June 30, 2010 or 2009.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2010</u>	<u>2009</u>
<u>United Way Programs</u>		
CHAMPS	\$ 139,850	\$ 139,850
Helping People in Crisis	108,496	112,915
Operations	72,740	74,440
Counseling Practice Program	65,080	65,080
Napier and Cora Howe Family Resource Centers	43,950	43,950

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS (Continued)

	<u>2010</u>	<u>2009</u>
United Way Programs (Continued)		
Relative Caregiver Program	4,400	4,389
Survivors of Suicide Program	<u>9,851</u>	<u>9,851</u>
Total United Way Programs	444,367	450,475
Program services	73,136	57,564
Unconditional promises to give	<u>-</u>	<u>14,000</u>
	<u>\$ 517,503</u>	<u>\$ 522,039</u>

NOTE 6 – BOARD DESIGNATED FOR ENDOWMENT NET ASSETS

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

	<u>2010</u>	<u>2009</u>
General Endowment	<u>\$ 2,183,126</u>	<u>\$ 2,183,126</u>

The interest earned on board-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, 2010 and 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	<u>\$ 2,183,126</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,183,126</u>

Endowment Investment Policy and Risk Parameters

The Organization has adopted 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.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 6 – BOARD DESIGNATED FOR ENDOWMENT NET ASSETS (Continued)

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 2013. The following is a schedule of future minimum lease payments at June 30, 2010:

<u>Fiscal Year</u>	
2011	\$ 57,736
2012	16,930
2013	<u>2,394</u>
	<u>\$ 77,060</u>

Rent expense totaled \$118,766 and \$114,649, respectively, for the years ended June 30, 2010 and 2009.

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, 2010 and 2009.

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.

SUPPLEMENTAL INFORMATION



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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**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 as of and for the year ended June 30, 2010, and have issued our report thereon dated November 8, 2010. 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

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 the 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 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 the board of directors, management, 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, Dem & Hand, PLLC

November 8, 2010



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO 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 the compliance of Family And Children's Service (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. 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 Service complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Family and Children's Service is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 of the board of directors, management, 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.

Fraser, Dem + Hand, PLLC

November 8, 2010

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2010

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 Report on Compliance with Requirements Applicable to 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 programs tested as major programs included:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.558	Families First – District 5
93.558	Families First – District 6

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, 2010

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, 2010**

None.