FAMILY AND CHILDREN'S SERVICE

FINANCIAL STATEMENTS

June 30, 2017 and 2016

FAMILY AND CHILDREN'S SERVICE

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FAMILY AND CHILDREN'S SERVICE
ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF
As of June 30, 2017

Board of Directors

John M. Steele	President
Jim Kelley	Vice President
Kelly Holmes	Secretary/Finance
Anne Elizabeth McIntosh	Governance
Evette White	Immediate Past President
Meg Rush	Board Member
Herman Hicks	Board Member
Beth Alexander	Board Member
Olatayo Atanda	Board Member
Mary Lee Barlett	Board Member
Maggie Bond	Board Member
Todd Carter	Board Member
George H. Cate III	Board Member
Jane Corcoran	Board Member
Missy Eason	Board Member
Sarah Ann Ezzell	Board Member
Matt Harris	Board Member
Ellen Jacobs	Board Member
William Liles	Board Member
Vicki McCluggage	Board Member
Marlene Eskind Moses	Board Member
Courtney Necessary	Board Member
Beth O'Shea	Board Member
Aylin Ozgener	Board Member
Perri duGard Owens	Board Member
Shawn Pelletier	Board Member
Tony Rose, Jr.	Board Member
Tracey Silverman	Board Member
Earle Simmons	Board Member
Joni P. Werthan	Board Member
Rev. Neely Williams	Board Member
Battle Williford	Board Member

Executive Staff

Michael McSurdy	CEO, Executive Director
Annabelle Cruz	Director of Finance and Administration

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Family and Children's Service (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our 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 from material misstatement.

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

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

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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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2017, on our consideration of Family and Children's Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Family and Children's Service's internal control over financial reporting and compliance.

Frasier, Dean & Howard, PLLC

November 14, 2017
Nashville, Tennessee

FAMILY AND CHILDREN'S SERVICE
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 2,349,944	$ 565,051
Receivables from federal and state grants	279,275	150,821
Unconditional promises to give, current	1,029,503	918,971
Other receivables	141,751	209,942
Prepaid expense	14,558	14,558
Total current assets	3,815,031	1,859,343
Unconditional promises to give, noncurrent	748,003	400,000
Land, building and equipment, net	3,098,869	3,267,176
Investments	3,714,781	3,622,689
Total assets	$ 11,376,684	$ 9,149,208
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 29,528	$ 52,196
Accrued payroll and benefits	265,392	220,529
Deferred grant revenue	90,121	-
Total current liabilities	385,041	272,725
Note payable	-	2,664,533
Total liabilities	385,041	2,937,258
Net assets:		
Unrestricted:		
Designated	3,019,785	2,430,744
Undesignated	5,228,306	2,160,960
Total unrestricted	8,248,091	4,591,704
Temporarily restricted	2,743,552	1,620,246
Total net assets	10,991,643	6,211,950
Total liabilities and net assets	$ 11,376,684	$ 9,149,208

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue and other support from operations:			
Gain on sale of building, net of $260,590 closing costs	$ 3,333,370	$ -	$ 3,333,370
Federal and state grants and fees	3,302,602	-	3,302,602
Contributions	6,707	1,880,553	1,887,260
Program service fees	1,085,543	-	1,085,543
Other grants	660,738	174,161	834,899
United Way	5,524	309,316	314,840
Special events, net of direct benefit costs of $105,438	95,585	-	95,585
Miscellaneous income	494	-	494
Net assets released from restrictions	1,240,724	(1,240,724)	-
Total revenue and other support from operations	9,731,287	1,123,306	10,854,593
Operating expenses:			
Program services	5,264,969	-	5,264,969
Management and general	741,383	-	741,383
Fundraising	374,497	-	374,497
Total operating expenses	6,380,849	-	6,380,849
Change in net assets before investment activity	3,350,438	1,123,306	4,473,744
Investment activity:			
Interest and dividends	70,136	-	70,136
Realized and unrealized gain	235,813	-	235,813
Total investment activity	305,949	-	305,949
Change in net assets	3,656,387	1,123,306	4,779,693
Net assets - beginning of year	4,591,704	1,620,246	6,211,950
Net assets - end of year	$ 8,248,091	$ 2,743,552	$ 10,991,643

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue and other support from operations:			
Federal and state grants and fees	$ 2,679,132	$ -	$ 2,679,132
Contributions	59,894	1,098,000	1,157,894
Program service fees	926,195	-	926,195
Other grants	364,632	489,727	854,359
United Way	201,343	318,971	520,314
Fee for service contract revenue	149,114	-	149,114
Special events, net of direct benefit costs of $66,565	125,968	-	125,968
Miscellaneous income	1,478	-	1,478
Net assets released from restrictions	924,903	(924,903)	-
Total revenue and other support from operations	5,432,659	981,795	6,414,454
Operating expenses:			
Program services	4,779,279	-	4,779,279
Management and general	585,742	-	585,742
Fundraising	297,498	-	297,498
Total operating expenses	5,662,519	-	5,662,519
Change in net assets before investment activity	(229,860)	981,795	751,935
Investment activity:			
Interest and dividends	103,973	-	103,973
Realized and unrealized loss	(114,307)	-	(114,307)
Total investment activity	(10,334)	-	(10,334)
Change in net assets	(240,194)	981,795	741,601
Net assets - beginning of year	4,831,898	638,451	5,470,349
Net assets - end of year	$ 4,591,704	$ 1,620,246	$ 6,211,950

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2017

	Program Services	Management and General	Fundraising	Total
Salaries	$ 2,834,096	$ 438,341	$ 210,855	$ 3,483,292
Professional fees	1,227,941	74,030	68,165	1,370,136
Employee benefits	265,034	26,755	19,863	311,652
Payroll Taxes	250,641	33,385	17,973	301,999
Travel	158,249	3,895	2,572	164,716
Financial aid	150,369	-	-	150,369
Occupancy	50,204	44,069	4,453	98,726
Supplies	64,564	21,820	7,662	94,046
Interest	65,841	9,271	4,683	79,795
Telephone	56,147	6,948	3,644	66,739
Equipment & building expense	41,619	10,633	9,782	62,034
Insurance	19,162	21,339	1,237	41,738
Miscellaneous	15,611	20,953	4,116	40,680
Depreciation	28,608	4,028	2,035	34,671
Printing & publications	7,236	3,353	12,295	22,884
In-kind expense	13,943	-	-	13,943
Organizational dues	1,230	11,007	1,345	13,582
Conferences & meetings	9,484	1,145	2,125	12,754
Loss on disposal of equipment	-	10,014	-	10,014
Postage	4,990	397	1,692	7,079
	$ 5,264,969	$ 741,383	$ 374,497	$ 6,380,849

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	Program Services	Management and General	Fundraising	Total
Salaries	$ 2,752,691	$ 393,675	$ 179,445	$ 3,325,811
Professional fees	908,400	61,328	48,393	1,018,121
Employee benefits	284,922	31,277	16,843	333,042
Payroll Taxes	241,046	31,885	14,818	287,749
Travel	121,013	1,157	3,157	125,327
Financial aid	116,920	-	-	116,920
Supplies	79,656	18,477	4,756	102,889
Equipment & building expense	66,189	11,684	7,472	85,345
Telephone	67,014	8,314	4,608	79,936
Occupancy	49,778	8,555	3,625	61,958
Depreciation	28,405	3,382	2,028	33,815
Insurance	20,969	7,572	1,076	29,617
Conferences & meetings	17,625	1,270	2,443	21,338
Miscellaneous	4,089	2,660	3,098	9,847
Postage	5,622	409	2,089	8,120
Printing & publications	5,563	654	1,767	7,984
Organizational dues	2,080	3,443	1,880	7,403
Advertising	7,297	-	-	7,297
	$ 4,779,279	$ 585,742	$ 297,498	$ 5,662,519

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 4,779,693	$ 741,601
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions restricted for long term purposes	(1,880,553)	-
Depreciation	34,671	33,815
Unrealized and realized (gain) loss on investments	(235,813)	114,307
Net (gain) loss on disposal of fixed assets	(3,323,356)	899
Changes in operating assets and liabilities:		
Receivables from federal and state grants	(128,454)	(30,826)
Unconditional promises to give	9,655	(990,084)
Other receivables	68,191	25,526
Prepaid expense	-	(14,558)
Accounts payable	(22,668)	9,527
Accrued payroll and benefits	44,863	79,931
Deferred grant revenue	90,121	-
Net cash used in operating activities	(563,650)	(29,862)
Cash flows from investing activities:		
Proceeds from sale of investments	902,888	190,600
Purchase of investments	(759,167)	(71,331)
Proceeds from sale of building	3,855,860	-
Purchase of building and equipment	(398,868)	(50,761)
Net cash provided by investing activities	3,600,713	68,508
Cash flows from financing activities:		
Payments on note payable	(2,664,533)	-
Proceeds restricted for long term purposes	1,412,363	-
Net cash used in financing activities	(1,252,170)	-
Net increase in cash and cash equivalents	1,784,893	38,646
Cash and cash equivalents - beginning of year	565,051	526,405
Cash and cash equivalents - end of year	$ 2,349,944	$ 565,051

See accompanying notes.

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 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. The Organization serves various regions throughout the state of Tennessee.

Financial Statement Presentation

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

Unrestricted net assets

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

Designated – Net assets designated by the Organization's board for particular purposes, presently designated by the board for endowment and a capital campaign.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor imposed stipulations that they be maintained permanently by the Organization. Generally, donors of these assets permit the Organization to use all or part of the income earned for general or specific purposes. The Organization had no permanently restricted net assets at June 30, 2017 or 2016.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions are recognized when a donor makes an unconditional promise to give to the Organization. Contributions that are not restricted, or are restricted by the donor and the restriction expires during the fiscal year, are reported as increases in unrestricted net assets. All other restricted contributions are reported as increases in temporarily or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Unconditional Promises to Give

Management considers all unconditional promises to give to be fully collectible at June 30, 2017 and 2016. Accordingly, no allowance for doubtful accounts has been recorded in the accompanying statements of financial position.

Land, Building and Equipment

It is the Organization's policy to capitalize land, building and equipment with cost in excess of $5,000. All purchases less than that amount are expensed in the period 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

The Organization accounts for investments in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") guidelines for not-for-profit organizations. Under these guidelines, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Investment income and realized and unrealized gains and losses are reported as changes in unrestricted net assets unless the use of income has been restricted by the donor. See Note 3 for additional information on fair value measurements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

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

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled $0 and $7,297 for the years ended June 30, 2017 and 2016, respectively.

Subsequent Events

The Organization evaluated subsequent events through November 14, 2017 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 – UNCONDITIONAL PROMISES TO GIVE

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

	2017	2016
Capital campaign pledges	$ 1,468,190	$ 1,000,000
United Way promises to give	309,316	318,971
	$ 1,777,506	$ 1,318,971

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE (Continued)

	2017	2016
Receivable in less than one year	$ 1,029,503	$ 918,971
Receivable in one to five years	748,003	400,000
	$ 1,777,506	$ 1,318,971

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at June 30, 2017 and 2016.

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

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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, 2017:

	Level 1	Level 2	Level 3	Total
Equity funds	$ 1,501,878	$ 721,229	$ -	$ 2,223,107
Bond funds	370,188	466,714	-	836,902
Alternative strategy securities	-	550,196	-	550,196
Money market funds	104,576	-	-	104,576
Total investments	$ 1,976,642	$ 1,738,139	$ -	$ 3,714,781

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, 2016:

	Level 1	Level 2	Level 3	Total
Equity funds	$ 1,029,469	$ 859,839	$ -	$ 1,889,308
Bond funds	348,037	595,162	-	943,199
Alternative strategy securities	-	688,822	-	688,822
Money market funds	101,360	-	-	101,360
Total investments	$ 1,478,866	$ 2,143,823	$ -	$ 3,622,689

NOTE 4 – LAND, BUILDING AND EQUIPMENT

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

	2017	2016
Land	$ -	$ 89,000
Building	-	867,362
Building improvements	-	75,801
Equipment	329,028	380,149
Construction in progress	398,869	-
Property (future headquarters)	2,700,000	2,700,000
	3,427,897	4,112,312
Less accumulated depreciation	(329,028)	(845,136)
	$ 3,098,869	$ 3,267,176

During June 2016, the Organization purchased land and a 32,000 square-foot building at 2400 Clifton Avenue, Nashville, TN and plans to relocate to that site. The Organization plans to spend approximately $7,000,000 on remodeling the building before relocating there within three years. This purchase and remodeling costs will be funded by the Organizations' capital campaign along with proceeds from the sale of the Organization's headquarters. The purchase was financed by a local bank (see Note 6).

During May 2017, the Organization sold its original headquarters for a purchase price of $4,116,450. Cash proceeds of $3,855,860 were used to pay off the note payable (see Note 6). A net gain on the sale of the building of $3,333,370 was recorded in the statement of activities for the year ended June 30, 2017.

NOTE 5 – LINE OF CREDIT

The Organization has a $300,000 line of credit available with a bank that expires January 13, 2018. The line of credit bears interest at a rate of 4% and is secured by certain business assets. No borrowings were outstanding at June 30, 2017 and 2016.

NOTE 6 – NOTE PAYABLE

During June of 2016, the Organization borrowed $2,664,533 from a local bank to finance the purchase of the future site of its operations (see Note 4). Interest only payments were due quarterly at a rate of 3.5% and continued until the note was paid in full during May 2017. The note payable was secured by the Organization's investments.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
United Way Programs		
Family Resource Centers	$ 207,000	$ 207,000
Helping People in Crisis	14,316	24,181
Counseling Practice Program	75,000	75,000
Survivors of Suicide Program	13,000	12,500
Paydirect	-	290
Total United Way Programs	309,316	318,971
Capital campaign contributions	2,289,553	1,027,441
Program services	144,683	273,834
	$ 2,743,552	$ 1,620,246

NOTE 8 – BOARD DESIGNATED NET ASSETS

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

	2017	2016
Capital campaign	$ 806,660	$ 217,619
General endowment	2,213,125	2,213,125
	$ 3,019,785	$ 2,430,744

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

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

Endowment Net Asset Composition by Type of Fund as of June 30, 2017 and 2016:

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

NOTE 8 – BOARD DESIGNATED NET ASSETS (Continued)

Endowment Investment Policy and Risk Parameters

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

Strategies Employed for Achieving Investment Objectives

To satisfy its long term rate of return objectives, the Organization relies on a targeted mix of investments as follows: 0 – 10% cash & cash equivalents; 20 – 50% fixed income; 40 – 70% equities; 0 – 20% other securities.

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

NOTE 9 – 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 Year	
2018	$ 55,140
2019	3,873
2020	2,219
2021	2,219
2022	1,294
	$ 64,745

Rent expense amounted to $65,060 and $58,713, respectively, for the years ended June 30, 2017 and 2016.

NOTE 10 – CONCENTRATIONS

The Organization's cash account balances at June 30, 2017 and 2016 exceeded Federal Deposit Insurance Corporation insurance limits by $1,911,877 and $152,129, respectively. 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.

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, 2017 and for the year then ended, 73% of unconditional promises to give and 12% of revenue and other support were received from two donors, respectively. As of June 30, 2016 and for the year then ended, 76% of unconditional promises to give and 16% of revenue and other support were received from two donors, respectively.

The Organization recognized a $3,333,370 net gain on the sale of its headquarters which represented 31% of total revenue and other support from operations on the statement of activities for the year ended June 30, 2017.

NOTE 11 – RELATED PARTY

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 anually unless terminated by either party. As of June 30, 2017, CASA, Inc. owes the Organization approximately $22,000.

NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

The following is supplemental cash flow information required by accounting principles generally accepted in the United States of America.

Supplemental Cash Flow Information

	2017	2016
Cash paid during the year for interest	$ 79,795	$ -
Property purchase financed by bank	$ -	$ 2,664,533

SUPPLEMENTAL INFORMATION

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2016	Cash Receipts	Expenditures	Receivable June 30, 2017
FEDERAL AWARDS							
U.S. Department of Health and Human Services	Cooperative Agreement to Support Navigators in Federally-facilitated and State Partnership Marketplaces	93.332+	1NAVCA150262-01-00	$ -	$ 445,333	$ 445,333	$ -
		93.332+	6NAVCA150262-02-01	-	1,302,000	1,211,879	(90,121)
				-	1,747,333	1,657,212	(90,121)
	Project AWARE RobCo	93.243*	1H79SM062711-01	-	106,927	106,927	-
U.S. Department of Health and Human Services Passed Through:							
TN Dept. of Health and Human Services	Family Focused Solutions	93.558*	GR-13-38987	18,894	188,743	228,671	58,822
TN Dept. of Mental Health and Substance Abuse Services	Tennessee Prevention Network	93.959*	DGA39113	-	31,020	32,640	1,620
TN Commision on Aging and Disability	Medicare Enrollment Assistance	93.071*	48122-1	4,058	38,466	43,657	9,249
TN Dept. of Finance and Administration	Access Tennessee	93.778*	31865-00458	-	78,944	91,303	12,359
TN Commision on Aging and Disability	State Health Insurance Assistance	93.324*	31602-15076	6,034	55,782	58,510	8,762
Total U.S. Department of Health and Human Services				28,986	2,247,215	2,218,920	691
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	7,614	119,083	120,832	9,363
Total Federal Awards				36,600	2,366,298	2,339,752	10,054

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2016	Cash Receipts	Expenditures	Receivable June 30, 2017
STATE AWARDS							
TN Dept. of Health and Human Services	Family Focused Solutions	n/a	GR-13-38987#	38,325	382,856	463,850	119,319
TN Dept. of Children's Services	Relative Caregiver Program	n/a	35910-01891	75,896	515,115	499,000	59,781
Total State Awards				114,221	897,971	962,850	179,100
Total Federal and State Awards				$ 150,821	$ 3,264,269	$ 3,302,602	$ 189,154

*Cash grant receipts represent federal pass-through funds

Represents state's portion of grant

+ Denotes major program

FAMILY AND CHILDREN'S SERVICE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2017

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, 2017. 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 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Family and Children's Service (the "Organization"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Frasier, Dean & Howard, PLLC

November 14, 2017
Nashville, Tennessee

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Family and Children's Service's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Family and Children's Service's major federal programs for the year ended June 30, 2017. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Family and Children's Service'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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Family and Children's Service's compliance.

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Opinion on Each Major Federal Program

In our opinion, Family and Children's Service 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, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

Family and Children's Service's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Family and Children's Service'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 Family and Children's Service 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 Family and Children's Service'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 Family and Children's Service's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. 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. We identified deficiencies in internal control over compliance that we consider to be material weaknesses, described in the accompanying schedule of findings and questioned costs as items 2017-001.

Family and Children's Service's Response to Findings

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

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.

Frasier, Dean & Howard, PLLC

November 14, 2017
Nashville, Tennessee

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?	______	Yes	x	No
Significant deficiency(ies) identified?	______	Yes	x	No
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	______	
Type of auditor's report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance	x	Yes	______	No

Programs tested as major programs were:

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

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

FINDINGS – FINANCIAL STATEMENTS AUDIT

None

FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Noncompliance

2017-001 **Condition**: The indirect costs for the major federal award program were mistakenly calculated and reported on the federal financial report.

Criteria: Indirect costs charged to the grant for reimbursement cannot exceed allowable amounts.

Cause: The Organization incorrectly determined indirect costs charged to the grant.

Effect: As of June 30, 2017, the Organization withdrew funds in excess of costs incurred to date.

Auditor's Recommendation: The Organization should calculate actual and allowable grant expenses on a monthly basis and withdraw the appropriate funds accordingly.

Grantee Response: Family & Children's Service agrees with the noted audit finding. We have amended our procedures to include calculating actual and allowable grant expenses on a monthly basis and to withdraw funds in accordance with that calculation.

FAMILY AND CHILDREN'S SERVICE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2017

NONE