# FAMILY AND CHILDREN'S SERVICE AND AFFILIATE

## CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

***As of and for the Year Ended June 30, 2019 and 2018***

***And Reports of Independent Auditor***

Cherry Bekaert LLP
CPAs & Advisors

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# FAMILY AND CHILDREN'S SERVICE AND AFFILIATE
ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF

*AS OF JUNE 30, 2019*

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## Board of Directors

| | |
|---|---|
| Jim Kelley | President |
| Marlene Eskind Moses | Vice President |
| Battle Williford | Secretary/Treasurer |
| Olatayo Atanda | Board Representative |
| John M. Steele | Immediate Past President |
| Meg Rush | CASA Representative |
| Marissa Moses Russ | CASA Board President |
| Spencer Cummings | CASA Board Secretary/Treasurer |
| Rachel Albright | Board Member |
| Anne Elizabeth McIntosh | Board Member |
| Jean Brandon | Board Member |
| George H. Cate III | Board Member |
| Amy Colton | Board Member |
| Jane Corcoran | Board Member |
| Cullen Douglass | Board Member |
| Sarah Ann Ezzell | Board Member |
| Matt Harris | Board Member |
| Don Holmes | Board Member |
| Rob McNeilly | Board Member |
| Vicki McCluggage | Board Member |
| Charley Bairnsfather | Board Member |
| Tena Mayberry | Board Member |
| Perri duGard Owens | Board Member |
| Aylin Ozgener | Board Member |
| Kevin Roddey | 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 |
| Whit Wilson | Board Member |
| William Scales | Board Member |
| Victoria Ziegler | Board Member |

## Executive Staff

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

Cherry Bekaert LLP
CPAs & Advisors

# Report of Independent Auditor

To the Board of Directors
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 statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 the 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 audits. We conducted our audits 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, 2019 and 2018, 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.

## Emphasis of Matters

*Changes in Consolidated Financial Statement Presentation*
As discussed in Note 1, Family and Children's Service and Affiliate adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*. This ASU has been applied retrospectively to all periods presented in these consolidated financial statements other than disclosures concerning liquidity and availability of resources which has been adopted prospectively as allowed by the ASU. Our opinion is not modified with respect to this matter.

*COVID-19*
As more fully described in Note 14 to the financial statements, the Organization has been impacted by the outbreak of the novel coronavirus (COVID-19), which was declared a global pandemic by the World Health Organization in March 2020. Our conclusion is not modified with respect to this matter.

## Other Matters

*Supplemental Information*
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position, consolidating statements of activities, and schedule of expenditures of federal and state awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are 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 May 11, 2020, 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
May 11, 2020

**FAMILY AND CHILDREN'S SERVICE AND AFFILIATE**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

*JUNE 30, 2019 AND 2018*

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 932,969 | $ 6,870,931 |
| Restricted cash | 307,691 | 365,812 |
| Receivables from federal and state grants | 310,501 | 304,180 |
| Unconditional promises to give, current | 487,370 | 597,865 |
| Other receivables | 279,638 | 238,165 |
| Total Current Assets | 2,318,169 | 8,376,953 |
| Unconditional promises to give, net, noncurrent | 722,957 | 606,091 |
| New market tax credit note receivable | 6,990,000 | 6,990,000 |
| Land, building, and equipment, net | 9,903,320 | 4,519,120 |
| Investments | 3,994,964 | 3,767,502 |
| **Total Assets** | $ 23,929,410 | $ 24,259,666 |
| **LIABILITIES AND NET ASSETS** | | |
| Current Liabilities: | | |
| Accounts payable | $ 222,259 | $ 988,568 |
| Accrued payroll and benefits | 390,391 | 310,884 |
| Total Current Liabilities | 612,650 | 1,299,452 |
| Note payable | 1,430,000 | 1,530,000 |
| New market tax credit debt, less unamortized debt issuance costs | 9,748,958 | 9,703,314 |
| Total Liabilities | 11,791,608 | 12,532,766 |
| Net Assets: | | |
| Without Donor Restrictions: | | |
| Designated | 2,213,125 | 2,213,125 |
| Undesignated | 8,063,285 | 8,254,088 |
| Total Without Donor Restrictions | 10,276,410 | 10,467,213 |
| With Donor Restrictions | 1,861,392 | 1,259,687 |
| Total Net Assets | 12,137,802 | 11,726,900 |
| **Total Liabilities and Net Assets** | $ 23,929,410 | $ 24,259,666 |

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

*YEAR ENDED JUNE 30, 2019*

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Revenue and Other Support from Operations: | | | |
| Federal and state grants and fees | $ 2,236,079 | $ - | $ 2,236,079 |
| Contributions (including $43,939 in-kind) | 181,690 | 1,063,147 | 1,244,837 |
| Program service fees | 1,069,480 | - | 1,069,480 |
| Other grants | 129,263 | 529,567 | 658,830 |
| United Way | - | 72,886 | 72,886 |
| Special events | 225,140 | - | 225,140 |
| Miscellaneous income | 94,553 | - | 94,553 |
| Net assets released from restrictions satisfaction of purpose restriction | 1,063,895 | (1,063,895) | - |
| Total Revenue and Other Support from Operations | 5,000,100 | 601,705 | 5,601,805 |
| Operating Expenses: | | | |
| Program services | 4,183,715 | - | 4,183,715 |
| Management and general | 1,014,623 | - | 1,014,623 |
| Fundraising | 424,884 | - | 424,884 |
| Total Operating Expenses | 5,623,222 | - | 5,623,222 |
| Change in net assets before investment activity | (623,122) | 601,705 | (21,417) |
| Investment Activity: | | | |
| Interest and dividends | 49,343 | - | 49,343 |
| Realized and unrealized gain | 382,976 | - | 382,976 |
| Total Investment Activity | 432,319 | - | 432,319 |
| Change in net assets | (190,803) | 601,705 | 410,902 |
| Net assets, beginning of year | 10,467,213 | 1,259,687 | 11,726,900 |
| Net assets, end of year | $ 10,276,410 | $ 1,861,392 | $ 12,137,802 |

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

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

*YEAR ENDED JUNE 30, 2018*

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Revenue and Other Support from Operations: | | | |
| Federal and state grants and fees | $ 3,401,973 | $ - | $ 3,401,973 |
| Contributions (including $79,584 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 satisfaction of purpose restriction | 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 gain | 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, 2019*

| | Program Services | Support Services: Management and General | Support Services: Fundraising | Support Services: Total Supporting Services | Total |
|---|---|---|---|---|---|
| Salaries | $ 2,610,409 | $ 595,509 | $ 230,069 | $ 825,578 | $ 3,435,987 |
| Professional fees | 481,916 | 45,432 | 37,595 | 83,027 | 564,943 |
| Employee benefits | 232,265 | 33,804 | 19,976 | 53,780 | 286,045 |
| Payroll taxes | 218,296 | 39,238 | 17,168 | 56,406 | 274,702 |
| Financial aid | 148,777 | - | - | - | 148,777 |
| Travel | 126,969 | 10,050 | 3,033 | 13,083 | 140,052 |
| Interest expense | - | 134,822 | - | 134,822 | 134,822 |
| Occupancy | 59,333 | 43,666 | 4,807 | 48,473 | 107,806 |
| Supplies | 68,001 | 20,430 | 15,443 | 35,873 | 103,874 |
| Miscellaneous | 6,712 | 30,420 | 62,111 | 92,531 | 99,243 |
| Telephone | 58,160 | 7,641 | 2,257 | 9,898 | 68,058 |
| Equipment and building expense | 33,125 | 20,852 | 5,856 | 26,708 | 59,833 |
| Depreciation | 42,875 | 10,572 | 5,286 | 15,858 | 58,733 |
| In-kind expense | 39,280 | - | 4,659 | 4,659 | 43,939 |
| Insurance | 24,659 | 11,885 | 1,380 | 13,265 | 37,924 |
| Organizational dues | 21,309 | 4,093 | - | 4,093 | 25,402 |
| Printing and publications | 2,251 | 3,636 | 8,836 | 12,472 | 14,723 |
| Conferences and meetings | 4,989 | 1,487 | 2,813 | 4,300 | 9,289 |
| Postage | 4,389 | 1,086 | 3,595 | 4,681 | 9,070 |
| | $ 4,183,715 | $ 1,014,623 | $ 424,884 | $ 1,439,507 | $ 5,623,222 |

**FAMILY AND CHILDREN'S SERVICE AND AFFILIATE**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

*YEAR ENDED JUNE 30, 2018*

| | | Support Services | | | |
|---|---|---|---|---|---|
| | Program Services | Management and General | Fundraising | Total Supporting Services | Total |
| Salaries | $ 3,050,562 | $ 519,628 | $ 215,003 | $ 734,631 | $ 3,785,193 |
| Professional fees | 858,247 | 66,690 | 43,814 | 110,504 | 968,751 |
| Employee benefits | 281,041 | 31,578 | 19,610 | 51,188 | 332,229 |
| Payroll taxes | 253,454 | 39,238 | 17,168 | 56,406 | 309,860 |
| Miscellaneous | 17,306 | 97,067 | 76,245 | 173,312 | 190,618 |
| Travel | 166,075 | 1,319 | 2,507 | 3,826 | 169,901 |
| Financial aid | 156,303 | - | - | - | 156,303 |
| Supplies | 87,052 | 21,371 | 12,977 | 34,348 | 121,400 |
| Occupancy | 61,438 | 47,960 | 5,796 | 53,756 | 115,194 |
| Equipment and building expense | 62,080 | 14,152 | 9,956 | 24,108 | 86,188 |
| Interest expense | - | 60,768 | - | 60,768 | 60,768 |
| Telephone | 53,808 | 4,644 | 1,543 | 6,187 | 59,995 |
| Insurance | 21,824 | 17,297 | 1,189 | 18,486 | 40,310 |
| In-kind expense | 39,880 | - | - | - | 39,880 |
| Printing and publications | 18,079 | 4,298 | 9,359 | 13,657 | 31,736 |
| Conferences and meetings | 16,282 | 2,713 | 1,946 | 4,659 | 20,941 |
| Organizational dues | 2,072 | 8,767 | 436 | 9,203 | 11,275 |
| Postage | 7,833 | 389 | 2,334 | 2,723 | 10,556 |
| Partnership and collaboration | 7,664 | - | - | - | 7,664 |
| | $ 5,161,000 | $ 937,879 | $ 419,883 | $ 1,357,762 | $ 6,518,762 |

**FAMILY AND CHILDREN'S SERVICE AND AFFILIATE**
CONSOLIDATED STATEMENTS OF CASH FLOWS

*YEARS ENDED JUNE 30, 2019 AND 2018*

| | 2019 | 2018 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ 410,902 | $ 735,257 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Contributions restricted for long-term purposes | (963,147) | (768,892) |
| Donated equipment | - | (39,704) |
| Depreciation | 58,733 | - |
| Amortization of loan costs | 45,644 | 22,822 |
| Unrealized and realized gain on investments | (382,976) | (141,388) |
| Changes in operating assets and liabilities: | | |
| Receivables from federal and state grants | (6,321) | (24,905) |
| Unconditional promises to give | 246,033 | (355,414) |
| Other receivables | (41,473) | (96,414) |
| Prepaid expense | - | 14,558 |
| Accounts payable | (766,309) | 959,040 |
| Accrued payroll and benefits | 79,507 | 45,492 |
| Deferred grant revenue | - | (90,121) |
| Net cash (used in) provided by operating activities | (1,319,407) | 260,331 |
| **Cash flows from investing activities:** | | |
| Proceeds from sale of investments | 17,243,037 | 974,740 |
| Purchase of investments | (17,087,523) | (886,073) |
| Issuance of note receivable | - | (6,990,000) |
| Purchase of building and equipment | (5,442,933) | (1,380,547) |
| Net cash used in investing activities | (5,287,419) | (8,281,880) |
| **Cash flows from financing activities:** | | |
| Payments on note payable | (100,000) | (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 | 710,743 | 1,697,856 |
| Net cash provided by financing activities | 610,743 | 12,908,348 |
| Net (decrease) increase in cash and cash equivalents, and restricted cash | (5,996,083) | 4,886,799 |
| Cash and cash equivalents, and restricted cash, beginning of year | 7,236,743 | 2,349,944 |
| Cash and cash equivalents, and restricted cash, end of year | $ 1,240,660 | $ 7,236,743 |
| **Supplemental disclosure of cash flow information:** | | |
| Interest paid | $ 89,178 | $ 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 8).

*Principles of Consolidation* – The financial statements of FCS and FCS New Market (collectively referred to hereafter as the "Organization") have 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 ("U.S. GAAP"). All significant inter-entity balances and transactions have been eliminated in consolidation.

*Adoption of New Accounting Standard* – On August 18, 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*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adopted these new accounting requirements retrospectively to all periods presented in these consolidated financial statements other than disclosures concerning liquidity and availability of resources which has been adopted prospectively as allowed by the ASU.

*Financial Statement Presentation* – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. GAAP, as prescribed for not-for-profit organizations. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions:*

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.

*Net Assets With Donor Restrictions* – Net assets that are subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as increases to net assets without donor restrictions. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. 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 net assets with donor restrictions perpetual in nature as of June 30, 2019 and 2018.

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

*Cash and Cash Equivalents and Restricted Cash* – 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 net assets with donor restrictions. All other restricted contributions are reported as increases in net assets without donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

*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 U.S. 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, 2019 and 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 at the date of donation. Unless donor-restricted, all donated land, building, and equipment are reported as increases in net assets without donor restrictions. 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 net assets without donor restrictions unless the use of income has been restricted by the donor. See Note 4 for additional information on fair value measurements.

*Estimates* – The preparation of consolidated financial statements in conformity with U.S. 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, 2019.

*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 program and support services based on estimated time and effort. The remaining unallocated expenses are charged directly to a specific function based on the nature of the expense.

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

*Accounting Policies for Future Pronouncements* – In May 2014, 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 U.S. 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 in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

In January 2016, FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial* Liabilities. This guidance revises accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for the 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 February 2016, 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, 2023. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

In June 2018, 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.

## Note 2—Liquidity

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of providing programs and services to provide crisis counseling, trauma counseling for child and adult victims of violence, attachment counseling as well as conduct of services undertaken to support those activities to be general expenditures.

## Note 2—Liquidity (continued)

As a part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization considers all expenditures related to its ongoing program service activities as well as the conduct of services undertaken to support those activities to be general expenditures. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statements of financial position date, comprise the following at June 30, 2019:

| | |
|---|---|
| Financial assets at year-end: | |
| Cash and cash equivalents | $ 932,969 |
| Receivables from federal and state grants | 310,501 |
| Unconditional promises to give, net | 1,210,327 |
| Other receivables | 279,638 |
| Investments | 3,994,964 |
| Total financial assets | 6,728,399 |
| Less amounts not available to be used for general expenditures within one year: | |
| Board designations | 2,213,125 |
| Purpose and time restrictions | 1,861,392 |
| Financial assets not available to be used within one year | 4,074,517 |
| Financial assets available to meet general expenditures within one year | $ 2,653,882 |

The Organization's management monitors its liquidity so that it is able to cover operating expenses. The Organization is substantially supported by grants. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. Designations of net assets are self-imposed limitations which may be reversed by action of the Board of Directors should the need arise to cover operating expenses. Further, the Organization has a line of credit (see Note 6) that could be drawn upon if needed.

## Note 3—Unconditional promises to give

Unconditional promises to give are due as follows as of June 30:

| | 2019 | 2018 |
|---|---|---|
| Receivable in less than one year | $ 487,370 | $ 597,865 |
| Receivable in one to five years | 755,490 | 633,366 |
| | 1,242,860 | 1,231,231 |
| Less unamortized discount | (32,533) | (27,275) |
| | $ 1,210,327 | $ 1,203,956 |

## Note 4—Investments and fair value measurements

U.S. 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, 2019 and 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 for the year ended June 30, 2018. The Organization valued these investments as Level 2 because the specific units held were 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, 2019:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Equity funds | $ 2,401,501 | $ - | $ - | $ 2,401,501 |
| Bond funds | 1,278,861 | - | - | 1,278,861 |
| Fixed income funds | 313,000 | - | - | 313,000 |
| Money market funds | 1,602 | - | - | 1,602 |
| | $ 3,994,964 | $ - | $ - | $ 3,994,964 |

## Note 4—Investments and fair value measurements (continued)

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 5—Land, building, and equipment

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

| | 2019 | 2018 |
|---|---|---|
| Land | $ 1,220,000 | $ - |
| Building | 8,485,985 | - |
| Equipment | 256,068 | 329,028 |
| Construction in progress | - | 4,519,120 |
| | 9,962,053 | 4,848,148 |
| Less accumulated depreciation | (58,733) | (329,028) |
| | $ 9,903,320 | $ 4,519,120 |

Depreciation expense for the year ended June 30, 2019 was $58,733. There was no depreciation expense during the year ended June 30, 2018.

## Note 6—Line of credit

The Organization has a $300,000 line of credit available with a financial institution that expires January 25, 2028. The line of credit bears interest at a rate of 4.5% and is secured by certain business assets. No borrowings were outstanding at June 30, 2019 and 2018.

## Note 7—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 8). 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, 2019 and 2018 totaled $1,430,000 and $1,530,000, respectively.

## Note 8—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 $46,000 and $23,000 amortized during the years ended June 30, 2019 and 2018, respectively, which is included as a component of interest expense. 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.

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, 2019 and 2018 totaled approximately $307,000 and $366,000, respectively.

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 9—Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30:

| | 2019 | 2018 |
|---|---|---|
| United Way | $ 72,886 | $ 288,500 |
| Capital campaign contributions | 1,291,263 | 915,456 |
| Program services | 495,793 | 54,180 |
| Other | 1,450 | 1,551 |
| | $ 1,861,392 | $ 1,259,687 |

## Note 10—Board-designated net assets

As of June 30, 2019 and 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 U.S. GAAP, 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, 2019 and 2018:

| | Without Donor Restrictions | With Donor Restrictions | 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% to 10% cash & cash equivalents; 20% to 50% fixed income; 40 to 70% equities; 0% to 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 11—Leases

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

| | |
|---|---|
| 2020 | $ 20,250 |
| 2021 | 20,250 |
| 2022 | 1,294 |
| | $ 41,794 |

Rent expense amounted to approximately $78,000 and $110,000 for the years ended June 30, 2019 and 2018, respectively.

## Note 12—Concentrations

The Organization's cash account balances for the years ended June 30, 2019 and 2018, exceeded Federal Deposit Insurance Corporation insurance limits by approximately $549,000 and $6,674,000, 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, 2019 and 2018, approximately 77% and 83% of unconditional promises to give were received from two and three donors, respectively.

For the year ended June 30, 2019, contributions from two donors made up approximately 44% of total contribution revenue. No such concentration existed for the year ended June 30, 2018.

## Note 13—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, 2019 and 2018, CASA, Inc. owes the Organization approximately $146,000 and $93,000, respectively, and this amount is included in other receivables on the consolidated statements of financial position. As of the date of this report, the Organization and CASA, Inc. are negotiating to terminate this agreement with the provision of services ending December 31, 2020, and CASA, Inc. to pay the balance owed in full within an agreed upon period of time.

## Note 14—Subsequent events

The Organization evaluated subsequent events through May 11, 2020 when the consolidated financial statements were available to be issued. In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in the financial markets. The coronavirus outbreak and government responses are creating disruption to global supply chains and adversely impacting many industries. The outbreak could have a material adverse impact on economic and market conditions and trigger a period of global economic shutdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the coronavirus outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Organization, its performance and its financial results.

In accordance with Section 1102 of the Coronavirus Aid, Relief, and Economic Security Act (the ''CARES Act''), the Organization applied for and received a Paycheck Protection Program loan on April 23, 2020, totaling $764,400. Section 1106 of the CARES Act provides for forgiveness of up to the full principal amount of qualifying loans including accrued interest to the extent the Organization incurs certain qualifying expenses and maintains a certain level of average full-time equivalent employees during the measurement period following closing of the loan. Any portion of the loan that is not forgiven has a term of two years with an interest rate of 1%. Furthermore, as a result of the spread of COVID-19, economic uncertainties continue to arise, which are causing uncertainty about the future contributions and government funding. Other financial impact could occur though such potential impact is unknown at this time.

# SUPPLEMENTAL INFORMATION

**FAMILY AND CHILDREN'S SERVICE AND AFFILIATE**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

*JUNE 30, 2019*

| | FCS | FCS New Market | Eliminations | Consolidated Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | $ 820,864 | $ 112,105 | $ - | $ 932,969 |
| Restricted cash | - | 307,691 | - | 307,691 |
| Receivables from federal and state grants | 310,501 | - | - | 310,501 |
| Unconditional promises to give, current | 487,370 | - | - | 487,370 |
| Other receivables | 279,638 | 17,500 | (17,500) | 279,638 |
| Total Current Assets | 1,898,373 | 437,296 | (17,500) | 2,318,169 |
| Unconditional promises to give, net, noncurrent | 722,957 | - | - | 722,957 |
| New market tax credit note receivable | 6,990,000 | - | - | 6,990,000 |
| Land, building, and equipment, net | - | 9,903,320 | - | 9,903,320 |
| Investments | 3,994,964 | - | - | 3,994,964 |
| **Total Assets** | $ 13,606,294 | $ 10,340,616 | $ (17,500) | $ 23,929,410 |
| **LIABILITIES AND NET ASSETS** | | | | |
| Current Liabilities: | | | | |
| Accounts payable | $ 108,168 | $ 131,591 | $ (17,500) | $ 222,259 |
| Accrued payroll and benefits | 390,391 | - | - | 390,391 |
| Total Current Liabilities | 498,559 | 131,591 | (17,500) | 612,650 |
| Note payable | 1,430,000 | - | - | 1,430,000 |
| New market tax credit debt, less unamortized debt issuance costs | - | 9,748,958 | - | 9,748,958 |
| Total Liabilities | 1,928,559 | 9,880,549 | (17,500) | 11,791,608 |
| Net Assets: | | | | |
| Without Donor Restrictions: | | | | |
| Designated | 2,213,125 | - | - | 2,213,125 |
| Undesignated | 7,603,218 | 460,067 | - | 8,063,285 |
| Total Without Donor Restrictions | 9,816,343 | 460,067 | - | 10,276,410 |
| With Donor Restrictions | 1,861,392 | - | - | 1,861,392 |
| Total Net Assets | 11,677,735 | 460,067 | - | 12,137,802 |
| **Total Liabilities and Net Assets** | $ 13,606,294 | $ 10,340,616 | $ (17,500) | $ 23,929,410 |

## FAMILY AND CHILDREN'S SERVICE AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

*JUNE 30, 2018*

| | FCS | FCS New Market | Eliminations | Consolidated Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | $ 670,497 | $ 6,200,434 | $ - | $ 6,870,931 |
| Restricted cash | - | 365,812 | - | 365,812 |
| Receivables from federal and state grants | 304,180 | - | - | 304,180 |
| Unconditional promises to give, current | 597,865 | - | - | 597,865 |
| Other receivables | 238,165 | 2,666,213 | (2,666,213) | 238,165 |
| Total Current Assets | 1,810,707 | 9,232,459 | (2,666,213) | 8,376,953 |
| Unconditional promises to give, net, noncurrent | 606,091 | - | - | 606,091 |
| New market tax credit note receivable | 6,990,000 | - | - | 6,990,000 |
| Land, building, and equipment, net | - | 4,519,120 | - | 4,519,120 |
| Investments | 3,767,502 | - | - | 3,767,502 |
| **Total Assets** | $ 13,174,300 | $ 13,751,579 | $ (2,666,213) | $ 24,259,666 |
| **LIABILITIES AND NET ASSETS** | | | | |
| Current Liabilities: | | | | |
| Accounts payable | $ 81,225 | $ 907,343 | $ - | $ 988,568 |
| Accrued payroll and benefits | 310,884 | - | - | 310,884 |
| Total Current Liabilities | 392,109 | 907,343 | - | 1,299,452 |
| Note payable | 4,196,213 | - | (2,666,213) | 1,530,000 |
| New market tax credit debt, less unamortized debt issuance costs | - | 9,703,314 | - | 9,703,314 |
| Total Liabilities | 4,588,322 | 10,610,657 | (2,666,213) | 12,532,766 |
| Net Assets: | | | | |
| Without Donor Restrictions: | | | | |
| Designated | 2,213,125 | - | - | 2,213,125 |
| Undesignated | 5,113,166 | 3,140,922 | - | 8,254,088 |
| Total Without Donor Restrictions | 7,326,291 | 3,140,922 | - | 10,467,213 |
| With Donor Restrictions | 1,259,687 | - | - | 1,259,687 |
| Total Net Assets | 8,585,978 | 3,140,922 | - | 11,726,900 |
| **Total Liabilities and Net Assets** | $ 13,174,300 | $ 13,751,579 | $ (2,666,213) | $ 24,259,666 |

**FAMILY AND CHILDREN'S SERVICE AND AFFILIATE**
CONSOLIDATING STATEMENT OF ACTIVITIES

*YEAR ENDED JUNE 30, 2019*

| | Family and Children's Service | | | FCS New Market | | | | |
|---|---|---|---|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total | Eliminations | Consolidated Total |
| Revenue and Other Support from Operations: | | | | | | | | |
| Federal and state grants and fees | $ 2,236,079 | $ - | $ 2,236,079 | $ - | $ - | $ - | $ - | $ 2,236,079 |
| Contributions (including $43,939 in-kind) | 181,690 | 1,063,147 | 1,244,837 | - | - | - | - | 1,244,837 |
| Program service fees | 1,069,480 | - | 1,069,480 | - | - | - | - | 1,069,480 |
| Other grants | 129,263 | 529,567 | 658,830 | - | - | - | - | 658,830 |
| United Way | - | 72,886 | 72,886 | - | - | - | - | 72,886 |
| Special events | 225,140 | - | 225,140 | - | - | - | - | 225,140 |
| Miscellaneous income | 94,553 | - | 94,553 | 17,500 | - | 17,500 | (17,500) | 94,553 |
| Inter-entity transfers | 2,480,816 | - | 2,480,816 | (2,480,816) | - | (2,480,816) | - | - |
| Net assets released from restrictions satisfaction of purpose restriction | 1,063,895 | (1,063,895) | - | - | - | - | - | - |
| Total Revenue and Other Support from Operations | 7,480,916 | 601,705 | 8,082,621 | (2,463,316) | - | (2,463,316) | (17,500) | 5,601,805 |
| Operating Expenses: | | | | | | | | |
| Program services | 4,140,840 | - | 4,140,840 | 42,875 | - | 42,875 | - | 4,183,715 |
| Management and general | 859,200 | - | 859,200 | 172,923 | - | 172,923 | (17,500) | 1,014,623 |
| Fundraising | 419,598 | - | 419,598 | 5,286 | - | 5,286 | - | 424,884 |
| Total Operating Expenses | 5,419,638 | - | 5,419,638 | 221,084 | - | 221,084 | (17,500) | 5,623,222 |
| Change in net assets before investment activity | 2,061,278 | 601,705 | 2,662,983 | (2,684,400) | - | (2,684,400) | - | (21,417) |
| Investment Activity: | | | | | | | | |
| Interest and dividends | 45,798 | - | 45,798 | 3,545 | - | 3,545 | - | 49,343 |
| Realized and unrealized gain | 382,976 | - | 382,976 | - | - | - | - | 382,976 |
| Total Investment Activity | 428,774 | - | 428,774 | 3,545 | - | 3,545 | - | 432,319 |
| Change in net assets | 2,490,052 | 601,705 | 3,091,757 | (2,680,855) | - | (2,680,855) | - | 410,902 |
| Net assets, beginning of year | 7,326,291 | 1,259,687 | 8,585,978 | 3,140,922 | - | 3,140,922 | - | 11,726,900 |
| Net assets, end of year | $ 9,816,343 | $ 1,861,392 | $ 11,677,735 | $ 460,067 | $ - | $ 460,067 | $ - | $ 12,137,802 |

## FAMILY AND CHILDREN'S SERVICE AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES

*YEAR ENDED JUNE 30, 2018*

| | Family and Children's Service | | | FCS New Market | | | | |
|---|---|---|---|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total | Eliminations | Consolidated Total |
| Revenue and Other Support from Operations: | | | | | | | | |
| Federal and state grants and fees | $ 3,401,973 | $ - | $ 3,401,973 | $ - | $ - | $ - | $ - | $ 3,401,973 |
| Contributions (including $79,584 in-kind) | 661,372 | 770,257 | 1,431,629 | 39,704 | - | 39,704 | - | 1,471,333 |
| Program service fees | 1,059,463 | - | 1,059,463 | - | - | - | - | 1,059,463 |
| Other grants | 274,339 | 310,928 | 585,267 | - | - | - | - | 585,267 |
| United Way | 11,514 | 288,500 | 300,014 | - | - | - | - | 300,014 |
| Special events | 164,641 | - | 164,641 | - | - | - | - | 164,641 |
| Miscellaneous income | 40,658 | - | 40,658 | 3,144,747 | - | 3,144,747 | (3,144,747) | 40,658 |
| Net assets released from restrictions satisfaction of purpose restriction | 2,853,550 | (2,853,550) | - | - | - | - | - | - |
| Total Revenue and Other Support from Operations | 8,467,510 | (1,483,865) | 6,983,645 | 3,184,451 | - | 3,184,451 | (3,144,747) | 7,023,349 |
| Operating Expenses: | | | | | | | | |
| Program services | 5,161,000 | - | 5,161,000 | - | - | - | - | 5,161,000 |
| Management and general | 4,037,302 | - | 4,037,302 | 45,324 | - | 45,324 | (3,144,747) | 937,879 |
| Fundraising | 419,883 | - | 419,883 | - | - | - | - | 419,883 |
| Total Operating Expenses | 9,618,185 | - | 9,618,185 | 45,324 | - | 45,324 | (3,144,747) | 6,518,762 |
| Change in net assets before investment activity | (1,150,675) | (1,483,865) | (2,634,540) | 3,139,127 | - | 3,139,127 | - | 504,587 |
| Investment Activity: | | | | | | | | |
| Interest and dividends | 87,487 | - | 87,487 | 1,795 | - | 1,795 | - | 89,282 |
| Realized and unrealized gain | 141,388 | - | 141,388 | - | - | - | - | 141,388 |
| Total Investment Activity | 228,875 | - | 228,875 | 1,795 | - | 1,795 | - | 230,670 |
| Change in net assets | (921,800) | (1,483,865) | (2,405,665) | 3,140,922 | - | 3,140,922 | - | 735,257 |
| Net assets, beginning of year | 8,248,091 | 2,743,552 | 10,991,643 | - | - | - | - | 10,991,643 |
| Net assets, end of year | $ 7,326,291 | $ 1,259,687 | $ 8,585,978 | $ 3,140,922 | $ - | $ 3,140,922 | $ - | $ 11,726,900 |

# COMPLIANCE INFORMATION

**FAMILY AND CHILDREN'S SERVICE AND AFFILIATE**

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

*YEAR ENDED JUNE 30, 2019*

| 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 | 6 NAVCA150262-02-01 | $ 203,491 | $ 60,212 |
| | Cooperative Agreement to Support Navigators in Federally-facilitated and State Partnership Marketplaces | 93.332 | 6NAVCA180334 | 225,000 | - |
| | | | | 428,491 | 60,212 |
| U.S. Department of Health and Human Services | Project AWARE RobCo | 93.243 | 5H79SM062711-03 | 22,000 | - |
| U.S. Department of Health and Human Services Passed Through: | | | | | |
| TN Dept. of Health and Human Services | Family Focused Solutions | 93.558 | 34530-40318 | 449,504 | - |
| Total 477 Cluster | | | | 449,504 | - |
| Upper Cumberland Area Agency on Aging and Disability | Senior Medicare Patrol | 93.775 | | 17,000 | - |
| Total Medicaid Cluster | | | | 17,000 | - |
| TN Dept. of Mental Health and Substance Abuse Services | Tennessee Prevention Network | 93.959 | DGA 58045_2018-2019_006 | 40,472 | - |
| TN Commission on Aging and Disability | Medicare Enrollment Assistance | 93.071 | 31602-18044 | 55,847 | - |
| TN Commission on Aging and Disability | State Health Insurance Program | 93.324 | 31602-18069 | 52,727 | - |
| TN Commission on Aging and Disability | State Health Insurance Program | 93.324 | 31602-19048 | 20,249 | - |
| | | | | 72,976 | - |
| TN Dept. of Children's Services | Child Abuse Prevention | 93.590 | 35910-02844 | 20,504 | - |
| Total U.S. Department of Health and Human Services | | | | 1,106,794 | 60,212 |
| 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 | 240,832 | - |
| Prevent Child Abuse TN (PCAT) | Domestic Violence Helpline | 16.unknown | PCAT # 26752 | 19,281 | - |
| TN Commission on Children and Youth | Clinical Case Management | 16.540 | 31601-DP06-17 | 16,107 | - |
| TN Commission on Children and Youth | Clinical Case Management | 16.540 | 31601-DP04-18 | 27,464 | - |
| | | | | 43,571 | - |
| Total U.S. Department of Justice | | | | 303,684 | - |
| **Total Federal Awards** | | | | 1,410,478 | 60,212 |

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

*YEAR ENDED JUNE 30, 2019*

| 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 | $ 221,397 | $ - |
| TN Dept. of Finance and Administration | Access TN | n/a | 31865-00458-02 | 92,753 | - |
| TN Dept. of Mental Health | Redline and Gambling Line | n/a | | 35,950 | - |
| TN Dept. of Children's Services | Relative Caregiver Program | n/a | 35910-01891 | 497,960 | - |
| TN Dept. of Children's Services | Child Abuse Prevention | n/a | 35910-02844 | 8,375 | - |
| TN Dept. of Children's Services | Adverse Childhood Experiences Initiative | n/a | 35910-58689 | 58,769 | - |
| **Total State Awards** | | | | 915,204 | - |
| **Total Federal and State Awards** | | | | $ 2,325,682 | $ 60,212 |

## 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 and Affiliate (the "Organization") under programs of federal and state governments for the year ended June 30, 2019. The information in the 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

The Organization 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 $60,212 of federal awards to subrecipients.

## Note 4—Noncash awards

The Organization did not receive noncash federal awards during the year ended June 30, 2019.

## Note 5—Contingencies

These programs are subject to financial and compliance audits by grantor agencies. The amount, if any, of expenditures that may be disallowed by the grantor agencies cannot be determined at this time, although the Organization expects such amounts, if any, to be immaterial.

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 the 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 and Affiliate (the "Organization") (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 11, 2020.

## 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-002 to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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*.

## 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
May 11, 2020

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's (the "Organization") compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2019. 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 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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the Organization's compliance.

## Basis for Qualified Opinion on Crime Victim Assistance

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding CFDA 16.575 Crime Victim Assistance ("VOCA") as described in finding numbers 2019-004 for Allowable Costs, 2019-005 for Reporting and 2019-006 for Cash Management and Matching. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

## Qualified Opinion on Crime Victim Assistance

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 VOCA for the year ended June 30, 2019.

## Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2019.

## Other Matters

The results of our auditing procedures disclosed other 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 2019-003. Our opinion on each major federal program is not modified with respect to these matters.

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 a 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2019-003, 2019-004, 2019-005 and 2019-006 to be material weaknesses.

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
May 11, 2020

## Section I - Summary of Audit Results

**Financial Statement Section**

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

**Federal Awards**

| | | | | |
|---|---|---|---|---|
| Internal control over major programs: | | | | |
| Material weakness(es) identified? | x | Yes | | No |
| Significant deficiency(ies) identified | | Yes | x | None Reported |
| Type of auditor's report on compliance for major programs: | Modified | | | |
| 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 |
| Crime Victim Assistance | 16.575 |

| | | | | |
|---|---|---|---|---|
| Dollar threshold used to distinguish between type A and type B programs | $ 750,000 | | | |
| Auditee qualified as low-risk auditee? | | Yes | x | 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 2019-001 – 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 unconditional promises to give and contributions, accounts payable and expenses. These entries included adjustments to record 1) approximately $300,000 entry to properly record unconditional promises to give and contributions and 2) approximately $42,000 of accounts payable and related expenses. Additionally, timely financial reporting and close was not completed, and material revisions were needed to the schedule of net assets with donor restrictions.

*Effect:* The general ledger was misstated.

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

*Recommendation:* The Organization should employ or contract the required expertise to prepare materially accurate financial reporting.

*Management's Response:* Management agrees with the finding.

**Finding 2019-002 – Significant Deficiency over Preparation of the Schedule of Expenditures of Federal Awards (SEFA)**

*Criteria:* The Organization is responsible for preparing appropriate financial statements, including the SEFA, for the period covered by the Organization's consolidated financial statements, providing the total Federal awards expended for each individual Federal program in accordance with Section 200.508(b) and 200.510 of Uniform Grant Guidance.

*Condition:* During the audit, corrections were needed to properly state the total amount of expenditures on the SEFA.

*Effect:* The SEFA was overstated by approximately $68,000 for CFDA 93.332 Cooperative Agreement to Support Navigators in Federally- facilitated and State Partnership Marketplaces.

*Cause:* Internal controls were not sufficient to prevent the SEFA from being materially misstated.

*Recommendation:* The Organization should employ or contract sufficient resources to ensure the SEFA is properly stated.

*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 2019-003 – Material Weakness and Nonmaterial Noncompliance in Internal Control over Allowable Costs and Reporting for the Cooperative Agreement to Support Navigators in Federally-facilitated and State Partnership Marketplaces Program**

*Criteria:* The Organization is responsible for ensuring that grant disbursements are to be spent in accordance with the grant agreement and that financial reporting is accurate and timely.

*Condition:* During the audit, 40 grant disbursements were selected for testing. Three exceptions were noted that totaled approximately $353 in unallowable costs. Additionally, one required annual report was selected for testing and the amounts recorded were inaccurate and did not agree to supporting schedules.

*Effect:* The Organization had costs charged to the grant that were unallowable and a financial report that was submitted was inaccurate.

*Cause:* The Organization did not have proper controls in place to ensure allowable costs were charged to the grant and proper review of financial report submissions.

*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.

**Finding 2019-004 – Material Weakness in Internal Control and Material Noncompliance over Allowable Costs for the Crime Victim Assistance**

*Criteria:* The Organization is responsible for ensuring that grant disbursements are to be spent in accordance with the grant agreement.

*Condition:* During the audit, 40 grant disbursements were selected for testing. Five exceptions were noted that totaled approximately $73 in unallowable costs, and one of the five exceptions did not have proper approval.

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

*Cause:* The Organization did not have proper controls in place to ensure that approved, 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.

**Finding 2019-005 – Material Weakness in Internal Control and Material Noncompliance over Reporting for the Crime Victim Assistance**

*Criteria:* The Organization is responsible for ensuring that required reporting is accurate and timely.

*Condition:* During the audit, testing was performed over financial and program reporting. Two required annual financial reports were not submitted timely and two quarterly financial reports were not reviewed prior to submission. Additionally, there was one annual program report that was not submitted timely and one annual program report was not reviewed prior to submission.

*Effect:* The Organization had untimely submission of financial and program reports.

*Cause:* The Organization did not have proper controls in place to ensure timely and accurate reporting submission.

*Recommendation:* We recommend that controls and procedures be put in place to ensure timely and accurate reporting for compliance with the grant.

*Management's Response:* Management agrees with the finding.

**Finding 2019-006 – Material Weakness in Internal Control over Cash Management and Matching Requirements for the Crime Victim Assistance**

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

*Condition:* During the audit, two reimbursement requests were tested for controls. These requests included the calculation of the matching requirement of the grant. Controls were not in place to review and approve the reimbursement requests prior to submission.

*Effect:* The reimbursement requests were not reviewed prior to submission.

*Cause:* The Organization did not have proper controls in place to ensure compliance with 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.

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

*Finding:* 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.

*Status:* The finding was not corrected in the 2019 fiscal year. See finding 2019-001.

**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**

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

*Status:* The finding was not corrected in the 2019 fiscal year. See finding 2019-003.

FAMILY & CHILDREN'S

# CORRECTIVE ACTION PLAN
# Family & Children's Service
# June 30, 2019 Audit

2019-001: **Material Weakness over Financial Reporting and Close**

Grantee Response: Family & Children's Service agrees with the noted audit finding. Management is in the process of restructuring its finance program to assure appropriate skills and competencies to assure the consolidated financial statements are appropriately stated.

Person responsible: Michael McSurdy, President and CEO

Completion date: August 31, 2020

2019-002: **Significant Deficiency over Preparation of the Schedule of Expenditures of Federal Awards (SEFA)**

Grantee Response: Family & Children's Service agrees with the noted audit finding. The agency will assure all records are available such that it can appropriately develop the Schedule mentioned.

Person responsible: Michael McSurdy, President and CEO

Completion date: August 31, 2020

2019-003: **Material Weakness and Nonmaterial Noncompliance in Internal Control over Allowable Costs and Reporting 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. Management is in the process of restructuring its finance program to assure appropriate oversight of all billing functions.

Person responsible: Michael McSurdy, President and CEO

Completion date: August 31, 2020

2019-004: **Material Weakness in Internal Control and Material Noncompliance over Allowable Costs for the Crime Victim Assistance**

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. Management is in the process of restructuring its finance program to assure appropriate oversight of all billing functions.

Person responsible: Michael McSurdy, President and CEO

Completion date: August 31, 2020

2019-005: **Material Weakness in Internal Control and Material Noncompliance over Reporting for the Crime Victim Assistance**

Grantee Response: Family & Children's Service agrees with the noted audit finding. Management is restructuring of the finance program to assure only appropriate reporting to grant funders.

Person responsible: Michael McSurdy, President and CEO

Completion date: August 31,2020

2018-006: **Material Weakness in Internal Control over Cash Management and Matching Requirements for the Crime Victim Assistance**

Grantee Response: Family & Children's Service agrees with the noted audit finding. Management is restructuring of the finance program to assure appropriate oversight of cash management and match allocation.

Person responsible: Michael McSurdy, President and CEO

Completion date: August 31,2020


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