

FAMILY AND CHILDREN'S SERVICE

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

June 30, 2006 and 2005

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Family and Children's Service (a nonprofit organization) as of June 30, 2006 and 2005, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family and Children's Service as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2006, on our consideration of Family and Children's Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Frasier, Dean & Howard, PLLC

August 3, 2006

FAMILY AND CHILDREN'S SERVICE
STATEMENTS OF FINANCIAL POSITION
June 30, 2006 and 2005

Assets	2006	2005
Current assets:		
Cash and cash equivalents	\$ 514,814	\$ 522,191
Assets held on behalf of NAC 7	-	78,772
Receivables from federal and state grants	310,079	359,210
Unconditional promises to give	935,763	784,132
Other receivables, net of allowance for doubtful accounts of \$6,535	39,079	62,108
Receivable from Crisis Intervention Center, Inc.	80,000	-
Total current assets	1,879,735	1,806,413
Receivable from Crisis Intervention Center, Inc.	-	80,000
Land, building and equipment, less accumulated depreciation	929,954	822,257
Investments	3,055,479	2,949,316
Total assets	<u>\$ 5,865,168</u>	<u>\$ 5,657,986</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 130,317	\$ 66,145
Accrued employee leave	194,954	176,958
Notes payable	-	113,093
Assets held on behalf of NAC 7	-	78,772
Total current liabilities	325,271	434,968
Notes payable, net of current portion	-	141,673
Total liabilities	<u>325,271</u>	<u>576,641</u>
Net assets:		
Unrestricted:		
Designated for endowment	1,494,477	1,343,977
Other unrestricted	3,055,389	2,829,413
Total unrestricted	4,549,866	4,173,390
Temporarily restricted	990,031	907,955
Total net assets	<u>5,539,897</u>	<u>5,081,345</u>
Total liabilities and net assets	<u>\$ 5,865,168</u>	<u>\$ 5,657,986</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support from operations:			
Federal and State grants and fees	\$3,793,745	\$ -	\$ 3,793,745
United Way	652,495	757,354	1,409,849
Program service fees	452,333	-	452,333
Contributions	317,741	179,020	496,761
Other grants	317,672	635,900	953,572
Special events, net of direct benefit costs of \$46,655	127,133	-	127,133
Miscellaneous	35,449	-	35,449
Net assets released from restrictions	<u>1,490,198</u>	<u>(1,490,198)</u>	<u>-</u>
Total revenue and other support from operations	<u>7,186,766</u>	<u>82,076</u>	<u>7,268,842</u>
Operating expenses:			
Counseling and adoption services	5,791,862	-	5,791,862
Management and general	865,874	-	865,874
Fundraising	<u>360,562</u>	<u>-</u>	<u>360,562</u>
Total operating expenses	<u>7,018,298</u>	<u>-</u>	<u>7,018,298</u>
Change in net assets before investment income	<u>168,468</u>	<u>82,076</u>	<u>250,544</u>
Investment income:			
Interest and dividends	88,747	-	88,747
Realized and unrealized gains	<u>119,261</u>	<u>-</u>	<u>119,261</u>
Investment income, net	<u>208,008</u>	<u>-</u>	<u>208,008</u>
Change in net assets	376,476	82,076	458,552
Net assets - beginning of year	<u>4,173,390</u>	<u>907,955</u>	<u>5,081,345</u>
Net assets - end of year	<u><u>\$4,549,866</u></u>	<u><u>\$ 990,031</u></u>	<u><u>\$ 5,539,897</u></u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF ACTIVITIES
Year ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support from operations:			
Federal and State grants and fees	\$ 3,792,187	\$ -	\$ 3,792,187
United Way	78,450	766,841	845,291
Program service fees	592,806	-	592,806
Contributions	201,514	94,365	295,879
Other grants	104,727	221,734	326,461
Special events, net of direct benefit costs of \$83,756	109,934	-	109,934
Miscellaneous	1,453	-	1,453
Net assets released from restrictions	994,185	(994,185)	-
	<u>5,875,256</u>	<u>88,755</u>	<u>5,964,011</u>
Total revenue and other support from operations			
Operating expenses:			
Counseling and adoption services	4,897,888	-	4,897,888
Management and general	672,490	-	672,490
Fundraising	225,665	-	225,665
	<u>5,796,043</u>	<u>-</u>	<u>5,796,043</u>
Total operating expenses			
Change in net assets before investment income	<u>79,213</u>	<u>88,755</u>	<u>167,968</u>
Investment income:			
Interest and dividends	83,186	-	83,186
Realized and unrealized gains and losses, net	191,077	-	191,077
	<u>274,263</u>	<u>-</u>	<u>274,263</u>
Investment income, net			
Change in net assets	353,476	88,755	442,231
Net assets - beginning of year	<u>3,819,914</u>	<u>819,200</u>	<u>4,639,114</u>
Net assets - end of year	<u>\$ 4,173,390</u>	<u>\$ 907,955</u>	<u>\$ 5,081,345</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2006

	Counseling and Adoption Services	Management and General	Fundraising	Total
Salaries	\$3,654,207	\$ 633,450	\$ 216,318	\$ 4,503,975
Employee benefits	445,856	63,539	21,612	531,007
Payroll taxes	281,677	39,452	14,841	335,970
Professional fees	197,052	22,615	12,307	231,974
Partnership collaboration	228,807	-	-	228,807
Occupancy	181,106	10,571	3,158	194,835
Equipment and building expense	131,834	12,508	10,658	155,000
Travel	138,526	11,173	1,346	151,045
Financial aid	96,240	-	-	96,240
Supplies	76,211	15,040	4,534	95,785
Telephone	84,842	5,372	1,761	91,975
Advertising	38,377	-	40,712	79,089
Printing and publications	42,055	14,596	13,612	70,263
Depreciation	63,933	3,729	1,865	69,527
Miscellaneous	27,750	14,302	3,957	46,009
Insurance	33,158	4,558	2,155	39,871
Postage	17,300	1,531	5,490	24,321
Conferences and meetings	14,317	5,628	2,954	22,899
Organizational dues	12,451	2,635	3,282	18,368
Loss on equipment disposal	12,461	5,175	-	17,636
Interest	13,702	-	-	13,702
	<u>\$ 5,791,862</u>	<u>\$ 865,874</u>	<u>\$ 360,562</u>	<u>\$ 7,018,298</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2005

	Counseling and Adoption Services	Management and General	Fundraising	Total
Salaries	\$3,139,075	\$ 520,097	\$ 144,146	\$ 3,803,318
Employee benefits	405,216	41,894	12,134	459,244
Payroll taxes	244,922	27,488	8,245	280,655
Travel	168,645	4,801	1,649	175,095
Professional fees	139,682	9,052	22,662	171,396
Partnership collaboration	140,470	-	-	140,470
Occupancy	123,877	6,348	1,148	131,373
Equipment and building expense	98,356	11,897	6,189	116,442
Financial aid	94,938	-	-	94,938
Supplies	69,425	16,631	5,779	91,835
Telephone	59,968	3,913	1,066	64,947
Depreciation	47,531	5,970	674	54,175
Printing and publications	37,933	2,085	12,600	52,618
Insurance	39,717	5,882	1,495	47,094
Miscellaneous	11,624	11,609	2,423	25,656
Lifeworks	19,624	-	-	19,624
Organizational dues	15,447	3,035	1,039	19,521
Postage	14,578	805	3,345	18,728
Conferences and meetings	15,011	983	674	16,668
Advertising	6,588	-	397	6,985
Bad debts	5,261	-	-	5,261
	<u>\$4,897,888</u>	<u>\$ 672,490</u>	<u>\$ 225,665</u>	<u>\$ 5,796,043</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENTS OF CASH FLOWS
Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 458,552	\$ 442,231
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	69,527	54,175
Unrealized and realized gains on investments	(119,261)	(191,077)
Noncash contribution	-	(58,108)
Loss on fixed assets	17,636	4,365
Changes in current assets and liabilities:		
Assets held on behalf of NAC 7	78,772	24,645
Receivables from federal and state grants	49,131	128,725
Unconditional promises to give	(151,631)	(104,740)
Other receivables	23,029	(9,918)
Accounts payable and accrued expenses	64,172	7,019
Accrued employee leave	17,996	9,460
Assets held on behalf of NAC 7	(78,772)	(24,645)
Deferred revenue	-	(29,373)
Net cash provided by operating activities	<u>429,151</u>	<u>252,759</u>
Cash flows from investing activities:		
Proceeds from sale of investments	250,000	305,183
Purchase of investments	(236,902)	(356,431)
Purchase of equipment	(194,860)	(4,904)
Cash contributed pursuant to asset conveyance of Crisis Intervention Center, Inc.	-	70,539
Net cash (used in) provided by investing activities	<u>(181,762)</u>	<u>14,387</u>
Cash flows from financing activities:		
Repayment of borrowings under line of credit	(254,766)	-
Net cash used in financing activities	<u>(254,766)</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(7,377)	267,146
Cash and cash equivalents - beginning of year	522,191	255,045
Cash and cash equivalents - end of year	<u>\$ 514,814</u>	<u>\$ 522,191</u>
Supplemental information:		
Interest paid	<u>\$ 13,702</u>	<u>\$ -</u>
Noncash investing and financing activity from conveyance of assets and liabilities of Crisis Intervention Center, Inc.:		
Noncash assets acquired	<u>\$ -</u>	<u>\$ 258,669</u>
Liabilities assumed	<u>\$ -</u>	<u>\$ 271,100</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activity

The purpose of Family and Children's Service (the "Organization") is to promote the social, emotional and physical well being of families, children and individual members of families. This is accomplished by providing educational and counseling services to families and individuals, advocating and/or providing services and care appropriate to the individual needs of children whose parents or other relatives are unable to furnish adequate physical and emotional care, observing and studying causes of individual and family breakdown and promoting improvements of community conditions affecting family life, cooperating with other private and social agencies in the development of an adequate social service program to best fill the needs of the community without duplications, promoting and providing education for professional human services and providing ways and means for staff members to improve their own professional competency. The Organization serves the Middle Tennessee area.

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of 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.

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 currently has no permanently restricted net assets.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity when purchased of three months or less to be cash equivalents.

Promises to Give

Contributions are recognized when a donor makes an unconditional promise to give to the Organization. Contributions that are not restricted, or are restricted by the donor and the restriction expires during the fiscal year, are reported as increases in unrestricted net assets. All other contributions are reported as increases in temporarily or permanently restricted net assets. Management considers all unconditional promises to give fully collectible at June 30, 2006 and 2005.

Property and Equipment

It is the Organization's policy to capitalize property and equipment over \$5,000. All purchases less than that amount are expensed in the period incurred. Donated property and equipment is reported as contributions at its estimated fair value. Unless donor-restricted, all donated property and equipment are reported as increases in unrestricted net assets. Property and equipment are depreciated over their useful lives using the straight-line method. Useful lives range from three years for computer equipment to forty years for building.

Investments

The Organization's 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 unrealized gains and losses are reported as changes in unrestricted net assets unless the use of income has been restricted by the donor.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Income Taxes

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

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 2 – NAC 7 DEPOSITS

The Organization participated with six Nashville area nonprofit agencies in a collaborative effort to evaluate ways to reduce overhead and administrative expense. The collaboration took the name Nashville Agency Collaboration of Seven ("NAC 7") and was not incorporated. During 2001, the Organization received \$249,500 in grant funds on behalf of NAC 7. The funds were considered to be the assets of NAC 7 and were therefore presented in the accompanying statement of financial position as deposits. At June 30, 2005, the assets held on behalf of NAC 7 totaled \$78,772. NAC 7 dissolved during the year ended June 30, 2006.

NOTE 3 – INVESTMENTS

Investments of the Organization are stated at fair value as of June 30, 2006 and 2005 and consist of the following:

	<u>2006</u>	<u>2005</u>
Mutual funds (held by Diversified Trust Company):		
Money Market funds	\$ 30,511	\$ 16,617
Equity funds	1,784,357	1,585,047
Bond funds	1,041,861	912,737
Real estate	<u>190,750</u>	<u>176,915</u>
	3,047,479	2,691,316
Other investments:		
Preferred stock	8,000	8,000
Certificate of deposit (2.8%, matures 2/16/06)	<u>-</u>	<u>250,000</u>
	<u>\$ 3,055,479</u>	<u>\$ 2,949,316</u>

NOTE 4 – LAND, BUILDING AND EQUIPMENT

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

	<u>2006</u>	<u>2005</u>
Land	\$ 138,913	\$ 138,913
Land improvements	7,106	7,106
Building	1,051,235	936,875
Equipment	<u>624,280</u>	<u>621,371</u>
	1,821,534	1,704,265
Less accumulated depreciation	<u>(891,580)</u>	<u>(882,008)</u>
	<u>\$ 929,954</u>	<u>\$ 822,257</u>

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 5 – NOTES PAYABLE

	<u>2006</u>	<u>2005</u>
Line of credit payable to bank, interest at bank's prime rate plus .25% (8.25% at June 30, 2006), payable interest only through maturity (November 22, 2007), at which time remaining principal and interest will be due. The line of credit is unsecured. Amounts available under the line of credit as of June 30, 2006 totaled \$325,000.	\$ -	\$ -
Line of credit payable to bank, interest at bank's prime rate plus .25%, payable interest only through maturity (February 21, 2006), at which time remaining principal and interest will be due. The line of credit is secured by real property. Amounts outstanding at June 30, 2005 were repaid during fiscal 2006.	-	106,760
Note payable to bank, interest at 6.50% annum secured by a first mortgage on real property; monthly payments of principal and interest based on a fifteen year amortization period with a final maturity of February 21, 2010. Amounts outstanding at June 30, 2005 were repaid during fiscal 2006.	-	148,006
	-	254,766
Less amounts shown as current	-	113,093
	<u>\$ -</u>	<u>\$ 141,673</u>

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2006</u>	<u>2005</u>
Napier and Cora Howe Family Resource Centers	\$ 93,696	\$ 93,450
CHAMPS	160,996	160,996
Trauma Intervention Center	44,674	44,674
Mental Health Counseling	53,670	76,670
Help for Seniors and Their Families	64,034	52,451
Operations	57,898	32,861

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS (Continued)

	<u>2006</u>	<u>2005</u>
Domestic Violence Family Treatment Program	26,430	37,357
Caring Families Program	20,211	33,182
Family Recovery Program	19,299	24,124
Neighbor to Neighbor Training Program	49,957	49,957
Senior Solutions	37,466	34,060
Helping People in Crisis	<u>129,269</u>	<u>127,059</u>
	757,600	766,841
Program services	<u>232,431</u>	<u>141,114</u>
	<u>\$ 990,031</u>	<u>\$ 907,955</u>

NOTE 7 – LEASES

The Organization has operating lease commitments for office space and equipment. The following is a schedule of future minimum lease payments at June 30, 2006:

<u>Fiscal Year</u>	
2007	\$ 87,553
2008	54,508
2009	39,648
2010	15,437
2011	<u>-</u>
	<u>\$ 197,146</u>

Rent expense amounted to \$159,333 and \$111,504, respectively, for the years ended June 30, 2006 and 2005.

NOTE 8 – CONCENTRATION OF CREDIT RISK

The Organization may at times have cash amounts at financial institutions in excess of the amount insured by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses in such amounts and does not believe it is exposed to any significant concentration of credit risk.

NOTE 9 – CONCENTRATION OF REVENUE

The Organization receives a substantial amount of its revenue from Federal and State grants and the United Way. A significant reduction in the amount received from either source could have an adverse effect on the operations of the Organization.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 10 – ASSET CONVEYANCE

Effective June 30, 2005, the Organization acquired certain Crisis Intervention Center, Inc.'s ("CIC") programs. CIC, located in Nashville, Tennessee, is a not-for-profit organization that operates programs complimentary to those of the Organization. The agreement generally provides for the Organization to acquire certain assets and liabilities related to CIC. As part of the agreement, the Organization advanced \$80,000 for working capital. The advance has been repaid subsequent to June 30, 2006. In addition, the Organization has agreed to lend CIC an additional amount up to \$65,000 in certain circumstances as described in the agreement. The transaction has been accounted for as a contribution in the 2005 statement of activities. Assets and liabilities transferred to the Organization include the following.

Cash	\$ 70,539
Grants receivable	35,754
Loan receivable	80,000
Land, buildings and equipment recorded at historical cost, net of accumulated depreciation	142,915
Accrued liabilities	(16,334)
Line of credit	(106,760)
Mortgage note payable	<u>(148,006)</u>
	<u>\$ 58,108</u>

SUPPLEMENTAL INFORMATION

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year ended June 30, 2006

FEDERAL AWARDS

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2005	Cash Receipts	Expenditures	Receivable June 30, 2006
U.S. Dept. of Health and Human Services	Childhood Trauma Intervention Center	93.243	1 U79 SM56082-01	\$ -	\$ 459,850	\$ 459,850	\$ -
Total for CFDA No. 93.243				-	459,850	459,850	-
U.S. Department of Health and Human Services Passed Through:							
TN Dept. of Health and Human Services	Families First-District 5	93.558	GR-03-14926-02	9,603	9,603	-	-
TN Dept. of Health and Human Services	Families First-District 5	93.558	GR-03-14926-04	-	277,793	303,712	25,919
TN Dept. of Health and Human Services	Families First-District 6	93.558	GR-03-14925-03	635	635	-	-
TN Dept. of Health and Human Services	Families First-District 6	93.558	GR-03-14925-05	-	205,189	224,209	19,020
TN Dept. of Children's Services	Relative Caregiver Program	93.558	GR-05-16435-00	58,598	58,598	-	-
Total for CFDA No. 93.558 **				68,836	551,818	527,921	44,939
TN Dept. of Children's Services	Social Services Block Grant	93.667	GR-05-16622-00	879	37,216	39,497	3,160
Total for CFDA No. 93.667 **				879	37,216	39,497	3,160
TN Dept. of Children's Services	REACT	93.659	GR-05-16620-00	27,746	27,746	-	-
TN Dept. of Children's Services	REACT	93.659	GR-06-17405-00	-	121,591	130,526	8,935
TN Dept. of Children's Services	Nashville Center for Adoption	93.659	GR-05-16621-00	20,580	20,580	-	-
Total for CFDA No. 93.659 *				48,326	169,917	130,526	8,935
TN Dept. of Children's Services	Nashville Center for Adoption	93.556	GR-06-17425-00	-	256,214	282,123	25,909
TN Dept. of Children's Services	REACT	93.556	GR-06-17405-00	-	78,041	83,776	5,735
Total for CFDA No. 93.556 *				-	334,255	365,899	31,644
U.S. Department of Justice Passed Through:							
TN Dept. of Finance and Administration Office of Criminal Justice	Crime Victim Assistance	16.575	Z-00-099346-01	3,522	27,970	28,495	4,047
TN Dept. of Finance and Administration Office of Criminal Justice	Crime Victim Assistance	16.575	Z-00-099347-01	9,311	91,061	87,232	5,482
Total for CFDA No. 16.575**				12,833	119,031	115,727	9,529
Total Federal Awards				130,874	1,672,087	1,639,420	98,207

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Continued from Page 15)
Year ended June 30, 2006

FEDERAL AWARDS (Continued)		CFDA Number	Contract Number	Receivable June 30, 2005	Cash Receipts	Expenditures	Receivable June 30, 2006
Federal Grantor/Pass-Through Grantor	Program Name						
STATE AWARDS							
TN Dept. of Health and Human Services	Families First-District 5	93.558	GR-03-14926-02#	68,674	68,674	-	-
TN Dept. of Health and Human Services	Families First-District 5	93.558	GR-03-14926-04#	-	515,900	564,036	48,136
TN Dept. of Health and Human Services	Families First-District 6	93.558	GR-03-14925-03#	56,619	56,619	-	-
TN Dept. of Health and Human Services	Families First-District 6	93.558	GR-03-14925-05#	-	381,066	416,387	35,321
TN Dept. of Children's Services	Permanency Groups	n/a	GR-0617749-00	-	-	29,296	29,296
TN Dept. of Children's Services	Family to Family	n/a	GR-06-17422-00	-	18,381	22,303	3,922
TN Dept. of Children's Services	Needs Assessment - Adoption and Foster	n/a	GR-05-16987-00	30,554	30,554	-	-
TN Dept. of Children's Services	REACT	93.659	GR-05-16620-00#	41,619	41,619	-	-
TN Dept. of Children's Services	REACT	93.556 and 93.659	GR-06-17405-00#	-	299,448	321,453	22,005
TN Dept. of Children's Services	Relative Caregiver Program	n/a	GR-06-17231-00	-	505,950	558,809	52,859
TN Dept. of Children's Services	Transitioning Children	n/a	GR-06-17590-00	-	136,303	148,000	11,697
TN Dept. of Children's Services	Nashville Center for Adoption	93.659	GR-05-16621-00#	30,870	30,870	-	-
TN Dept. of Children's Services	Nashville Center for Adoption	93.556	GR-06-17425-00#	-	85,405	94,041	8,636
Total State Awards				228,336	2,170,789	2,154,325	211,872
Total Federal and State Awards				\$ 359,210	\$ 3,842,876	\$ 3,793,745	\$ 310,079

*Cash grant receipts represent federal pass-through funds

Represents state's portion of grant

+ Indicates a major program

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

NOTE 1 - BASIS OF ACCOUNTING

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



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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

The Board of Directors
Family and Children's Service

We have audited the financial statements of Family and Children's Service (a nonprofit organization) as of and for the year ended June 30, 2006, and have issued our report thereon dated August 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Family and Children's Service's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Family and Children's Service in a separate letter dated August 3, 2006.

The Board of Directors
Family and Children's Service
Page two

This report is intended solely for the information and use of the board of directors, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Frasier Dean & Howard PLLC

August 3, 2006



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

The Board of Directors
Family and Children's Service

Compliance

We have audited the compliance of Family and Children's Service (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2006. Family and Children's Service's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Family and Children's Service's management. Our responsibility is to express an opinion on Family and Children's Service's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Family and Children's Service's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Family and Children's Service's compliance with those requirements.

In our opinion, Family and Children's Service complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Family and Children's Service is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Family and Children's Service's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the board of directors, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Frasier, Dean & Howard PLLC

August 3, 2006

**FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2006**

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not
considered to be material weakness(es)?

☐ Yes ☒ None Reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major program:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not
considered to be material weakness(es)

☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported
in accordance with Section 501 (a) of Circular A-133?

☐ Yes ☒ No

Identification of major programs:

CFDA Number

93.558

93.667

93.659

Name of Federal Program or Cluster

Temporary Assistance for Needy Families

Social Services Block Grant

Adoption Assistance

Dollar threshold used to distinguish between
type A and type B program:

\$300,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year ended June 30, 2006

**II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY
ACCEPTED GOVERNMENT AUDITING STANDARDS**

A. Reportable Conditions in Internal Control

None.

B. Compliance Findings

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

FAMILY AND CHILDREN'S SERVICE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2006

Finding 2005-1 U.S. Department of Health and Human Services – CFDA No. 93.558-Grant No. 05-16435-00, Year ended June 30, 2005

Condition: Amounts charged to the grant relating to equipment repairs and maintenance, printing, travel and specific assistance did not adhere to the respective line-items approved in the grant budget.

Recommendation: We recommended the Organization adhere to the grant budget or obtain written approval from the Grantor agency for all budget revisions.

Current status: No similar findings were noted during the audit for the year ended June 30, 2006.