

FAMILY AND CHILDREN'S SERVICE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

June 30, 2014 and 2013

FAMILY AND CHILDREN'S SERVICE

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Family and Children's Service, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2014, on our consideration of Family and Children's Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Family and Children's Service's internal control over financial reporting and compliance.

Fraser, Don + Hand, PLLC

November 18, 2014
Nashville, Tennessee

FAMILY AND CHILDREN'S SERVICE
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 626,867	\$ 311,025
Receivables from federal and state grants	143,964	303,734
Unconditional promises to give	275,442	501,073
Fee for service contract receivable	141,100	148,950
Other receivables	94,328	50,106
	<hr/>	<hr/>
Total current assets	1,281,701	1,314,888
Land, building and equipment, net	624,159	632,889
Investments	4,057,489	3,724,685
	<hr/>	<hr/>
Total assets	<u>\$ 5,963,349</u>	<u>\$ 5,672,462</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 40,961	\$ 57,203
Accrued payroll and benefits	135,678	115,126
	<hr/>	<hr/>
Total liabilities	176,639	172,329
	<hr/>	<hr/>
Net assets:		
Unrestricted:		
Designated	2,400,744	2,183,125
Other unrestricted	2,859,749	2,596,979
	<hr/>	<hr/>
Total unrestricted	5,260,493	4,780,104
Temporarily restricted	526,217	720,029
	<hr/>	<hr/>
Total net assets	5,786,710	5,500,133
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 5,963,349</u>	<u>\$ 5,672,462</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support from operations:			
Federal and state grants and fees	\$ 1,542,431	\$ -	\$ 1,542,431
Other grants	710,617	185,432	896,049
United Way	508,870	275,442	784,312
Program service fees	638,840	-	638,840
Fee for service contract revenue	609,200	-	609,200
Contributions	398,075	-	398,075
Special events, net of direct benefit costs of \$57,516	100,077	-	100,077
Miscellaneous income	208	-	208
Net assets released from restrictions	654,686	(654,686)	-
	<u>5,163,004</u>	<u>(193,812)</u>	<u>4,969,192</u>
Operating expenses:			
Program services	4,240,585	-	4,240,585
Management and general	581,274	-	581,274
Fundraising	333,715	-	333,715
	<u>5,155,574</u>	<u>-</u>	<u>5,155,574</u>
Change in net assets before investment activity	<u>7,430</u>	<u>(193,812)</u>	<u>(186,382)</u>
Investment activity:			
Interest and dividends	81,371	-	81,371
Realized and unrealized gains	391,588	-	391,588
	<u>472,959</u>	<u>-</u>	<u>472,959</u>
Change in net assets	480,389	(193,812)	286,577
Net assets - beginning of year	<u>4,780,104</u>	<u>720,029</u>	<u>5,500,133</u>
Net assets - end of year	<u><u>\$ 5,260,493</u></u>	<u><u>\$ 526,217</u></u>	<u><u>\$ 5,786,710</u></u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support from operations:			
Federal and state grants and fees	\$ 1,550,247	\$ -	\$ 1,550,247
United Way	509,479	501,073	1,010,552
Other grants	248,754	391,618	640,372
Program service fees	417,728	-	417,728
Fee for service contract revenue	309,550	-	309,550
Contributions	163,832	1,385	165,217
Special events, net of direct benefit costs of \$29,498	113,205	-	113,205
Miscellaneous income	1,085	-	1,085
Net assets released from restrictions	733,039	(733,039)	-
	<u>4,046,919</u>	<u>161,037</u>	<u>4,207,956</u>
Operating expenses:			
Program services	3,568,705	-	3,568,705
Management and general	557,554	-	557,554
Fundraising	259,874	-	259,874
	<u>4,386,133</u>	<u>-</u>	<u>4,386,133</u>
Change in net assets before investment activity	<u>(339,214)</u>	<u>161,037</u>	<u>(178,177)</u>
Investment activity:			
Interest and dividends	75,836	-	75,836
Realized and unrealized gains	275,558	-	275,558
	<u>351,394</u>	<u>-</u>	<u>351,394</u>
Change in net assets	12,180	161,037	173,217
Net assets - beginning of year	<u>4,767,924</u>	<u>558,992</u>	<u>5,326,916</u>
Net assets - end of year	<u><u>\$ 4,780,104</u></u>	<u><u>\$ 720,029</u></u>	<u><u>\$ 5,500,133</u></u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2014

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 2,711,048	\$ 402,163	\$ 158,114	\$ 3,271,325
Professional fees	409,993	16,770	99,895	526,658
Employee benefits	269,637	30,059	16,374	316,070
Payroll taxes	246,017	32,974	13,671	292,662
Travel	134,030	6,275	3,443	143,748
Financial aid	122,395	-	-	122,395
Supplies	68,705	25,999	6,071	100,775
Equipment & building expense	62,321	11,732	8,996	83,049
Telephone	57,357	13,066	3,734	74,157
Occupancy	60,400	9,370	3,611	73,381
Depreciation	40,499	3,945	2,191	46,635
Insurance	25,301	11,642	1,748	38,691
Conferences & meetings	8,931	10,420	770	20,121
Printing & publications	6,698	1,108	8,851	16,657
Organizational dues	8,804	4,558	765	14,127
Postage	5,858	384	2,463	8,705
Miscellaneous	2,591	809	3,018	6,418
	<u>\$ 4,240,585</u>	<u>\$ 581,274</u>	<u>\$ 333,715</u>	<u>\$ 5,155,574</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2013

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 2,268,064	\$ 374,330	\$ 116,885	\$ 2,759,279
Professional fees	349,643	28,702	69,108	447,453
Payroll taxes	207,160	29,538	9,958	246,656
Employee benefits	185,893	20,194	12,521	218,608
Travel	114,865	7,241	5	122,111
Financial aid	113,373	-	-	113,373
Equipment & building expense	67,036	13,649	11,758	92,443
Supplies	53,723	18,612	5,157	77,492
Occupancy	57,004	10,639	3,553	71,196
Depreciation	51,635	7,231	2,205	61,071
Telephone	45,605	7,341	2,853	55,799
Insurance	21,889	11,238	1,036	34,163
Organizational dues	10,017	6,511	710	17,238
Bad debt expense	-	16,929	-	16,929
Conferences & meetings	11,984	1,998	323	14,305
Printing & publications	690	1,587	11,905	14,182
Postage	5,723	856	3,198	9,777
Miscellaneous	4,401	958	3,435	8,794
Marketing	-	-	5,264	5,264
	<u>\$ 3,568,705</u>	<u>\$ 557,554</u>	<u>\$ 259,874</u>	<u>\$ 4,386,133</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 286,577	\$ 173,217
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	46,635	61,071
Unrealized and realized gains on investments	(391,588)	(275,558)
Changes in operating assets and liabilities:		
Receivables from federal and state grants	161,770	(109,779)
Fee for service contract receivable	7,850	(127,600)
Unconditional promises to give	225,631	(67,956)
Other receivables	(46,222)	74,071
Accounts payable	(16,242)	(28)
Accrued payroll and benefits	20,552	19,192
Net cash provided by (used in) operating activities	<u>294,963</u>	<u>(253,370)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	106,000	131,139
Purchase of investments	(47,216)	(71,511)
Purchase of building and equipment	<u>(37,905)</u>	<u>(13,323)</u>
Net cash provided by investing activities	<u>20,879</u>	<u>46,305</u>
Net increase (decrease) in cash and cash equivalents	315,842	(207,065)
Cash and cash equivalents - beginning of year	<u>311,025</u>	<u>518,090</u>
Cash and cash equivalents - end of year	<u><u>\$ 626,867</u></u>	<u><u>\$ 311,025</u></u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activity

The purpose of Family and Children's Service (the "Organization") is to make best-practice mental health care accessible to all that need it to enable children and families to lead healthier, more fulfilling and productive lives. This is accomplished through 24-hour telephone crisis counseling, trauma counseling for child and adult victims of violence, attachment counseling to help foster and adoptive children and families form secure loving relationships, and family and individual counseling for addiction, depression, marriage and relationship issues. The Organization serves various regions throughout the State of Tennessee.

Financial Statement Presentation

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

Unrestricted net assets

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

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

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions which are restricted for specific programs are reflected as unrestricted revenue if these funds are received and spent in the same fiscal year.

Permanently restricted net assets – Net assets subject to donor imposed stipulations that they be maintained permanently by the Organization. Generally, donors of these assets permit the Organization to use all or part of the income earned for general or specific purposes. The Organization had no permanently restricted net assets at June 30, 2014 or 2013.

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.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional 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 restricted contributions are reported as increases in temporarily or permanently restricted net assets. Management considers all unconditional promises to give to be fully collectible at June 30, 2014 and 2013. Accordingly, no allowance for doubtful accounts has been recorded in the accompanying statements of financial position. All unconditional promises to give at June 30, 2014 are receivable within one year.

Land, Building and Equipment

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

Investments

The Organization accounts for investments in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") guidelines for not-for-profit organizations. Under these guidelines, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Investment income and realized and unrealized gains and losses are reported as changes in unrestricted net assets unless the use of income has been restricted by the donor. See Note 2 for additional information on fair value measurements.

Estimates

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

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, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Organization follows FASB ASC guidance concerning the accounting for income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization has not recognized any tax related interest and penalties in the accompanying financial statements. Federal tax years that remain open for examination include the years ended June 30, 2011 through June 30, 2014.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled \$0 and \$5,264 for the years ended June 30, 2014 and 2013, respectively.

Subsequent Events

The Organization evaluated subsequent events through November 18, 2014 when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the accompanying financial statements.

Reclassifications

Certain reclassifications have been made to 2013 balances to conform with 2014 presentation.

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

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

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Level 2 Inputs to the valuation methodology include:

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

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

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at June 30, 2014 and 2013.

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.

Investments of the Organization represent units of ownership in certain common trust funds owned by the Diversified Trust Company. The Organization values these investments as Level 2 because the specific units held do not have quoted prices and are not traded on an active market.

The following level 2 investments are stated at fair market value as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Investments held by Diversified Trust Company:		
Money market funds	\$ 57,353	\$ 48,499
Equity funds	2,033,540	2,239,994
Bond funds	1,177,349	1,436,192
Alternative strategy securities	<u>789,247</u>	<u>-</u>
	<u>\$ 4,057,489</u>	<u>\$ 3,724,685</u>

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 3 – FEE FOR SERVICE CONTRACT RECEIVABLE AND CONTRACT REVENUE

The Organization has a vendor contract with the state of Tennessee whereby it is paid a fee for services provided. Contractual payments are received from the state of Tennessee, fifty percent of which are funded by the federal government. Revenue earned under this contract totaled \$609,200 and \$309,550 for the years ended June 30, 2014 and 2013. Contract receivable totaled \$141,100 and \$148,950 as of June 30, 2014 and 2013, respectively.

NOTE 4 – LAND, BUILDING AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Land	\$ 89,000	\$ 89,000
Building	867,362	867,362
Building improvements	75,801	37,899
Equipment	<u>433,427</u>	<u>433,427</u>
	1,465,590	1,427,688
Less accumulated depreciation	<u>(841,431)</u>	<u>(794,799)</u>
	<u>\$ 624,159</u>	<u>\$ 632,889</u>

NOTE 5 – LINE OF CREDIT

The Organization has a \$300,000 line of credit available with a bank, which expires January 6, 2016. The line of credit bears interest at a rate of 4% and is secured by certain business assets. No borrowings were outstanding at June 30, 2014 and 2013.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2014</u>	<u>2013</u>
<u>United Way Programs</u>		
Family Resource Centers	\$ 154,000	\$ 146,000
FACES	-	139,850
Helping People in Crisis	28,441	110,053
Counseling Practice Program	75,000	65,080
Survivors of Suicide Program	17,642	28,851
Operations	-	8,000
Relative Caregiver Program	-	3,239
Paydirect	<u>359</u>	<u>-</u>
Total United Way Programs	275,442	501,073
Program services	<u>250,775</u>	<u>218,956</u>
	<u>\$ 526,217</u>	<u>\$ 720,029</u>

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 7 – BOARD DESIGNATED NET ASSETS

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

	<u>2014</u>	<u>2013</u>
Capital Campaign	\$ 217,619	\$ -
General Endowment	<u>2,183,125</u>	<u>2,183,125</u>
	<u>\$ 2,400,744</u>	<u>\$ 2,183,125</u>

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

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

Endowment Net Asset Composition by Type of Fund as of June 30, 2014 and 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ <u>2,183,125</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,183,125</u>

Endowment Investment Policy and Risk Parameters

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

Strategies Employed for Achieving Investment Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 8 – LEASES

The Organization has operating lease commitments for office space and equipment through fiscal year 2018. The following is a schedule of future minimum lease payments at June 30, 2014:

<u>Fiscal Year</u>	
2015	\$ 33,368
2016	30,731
2017	15,243
2018	<u>7,494</u>
	<u>\$ 86,836</u>

Rent expense amounted to \$72,416 and \$64,542, respectively, for the years ended June 30, 2014 and 2013.

NOTE 9 – 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 accounts, and management believes the Organization is not exposed to any significant credit risk related to cash.

NOTE 10 – 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 these sources could have an adverse effect on the operations of the Organization.

NOTE 11 – COLLABORATION FOR FAMILY SUPPORT

The Organization entered into an agreement effective January 1, 2013 to December 31, 2014 with three not-for-profit organizations to develop an operational model that strengthens each agency and improves the outcomes of families seeking support from the partner agencies. The Organization provides fiscal management and clinical supervision. Grant funds awarded are primarily for health clinician and therapist costs. Persons served through this collaboration are affiliated with the Organization and therefore revenue and expense is recognized accordingly.

SUPPLEMENTAL INFORMATION

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2014

FEDERAL AWARDS

<u>Federal Grantor/Pass-Through Grantor</u>	<u>Program Name</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Receivable June 30, 2013</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Receivable June 30, 2014</u>
U.S. Department of Health and Human Services Passed Through:							
TN Dept. of Health and Human Services	Families First - temporary Assistance for Needy Families	93.558*+	GR-13-38987	\$ 98,695	\$ 331,414	\$ 254,521	\$ 21,802
TN Dept. of Health and Human Services	Substance Abuse and Mental Health Services Administration	93.243*	1U79SM061329-01	-	58,937	58,937	-
TN Dept. of Mental Health and Substance Abuse Services	Tennessee Prevention Network	93.959*	GR-13-39334	8,580	48,465	39,945	60
U.S. Department of Justice Passed Through:							
TN Dept. of Finance and Administration Office of Criminal Justice	Domestic Violence and Trauma	16.575*	18805	9,360	119,790	120,016	9,586
U.S. Department of Transportation Passed Through:							
Nashville Metropolitan Transit Authority	Ways to Work	20.516*	2012357-C	7,958	31,760	39,307	15,505
Total Federal Awards				124,593	590,366	512,726	46,953

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
Year Ended June 30, 2014

STATE AWARDS

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2013	Cash Receipts	Expenditures	Receivable June 30, 2014
TN Dept. of Health and Human Services	Families First	n/a	GR-13-38987#	-	472,491	516,755	44,264
TN Dept. of Health and Human Services	Families First	n/a	GR-13-38987#	48,610	48,610	-	-
Nashville Metropolitan Transit Authority	Ways to Work	n/a	2012357-C#	6,367	18,267	13,952	2,052
TN Dept. of Children's Services	Relative Caregiver Program	n/a	GR-11-31770	98,915	547,218	498,998	50,695
TN Dept. of Children's Services	Home Studies - Shelby Co.	n/a	FA-08-25307-00	7,429	7,429	-	-
TN Dept. of Children's Services	Home Studies - Upper Cumberland	n/a	FA-08-25513-00	17,820	17,820	-	-
Total State Awards				179,141	1,111,835	1,029,705	97,011
Total Federal and State Awards				\$ 303,734	\$ 1,702,201	\$ 1,542,431	\$ 143,964

*Cash grant receipts represent federal pass-through funds

+ Indicates a major program

Represents state's portion of grant

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

NOTE 1 - BASIS OF ACCOUNTING

The schedule of expenditures of federal and state awards is prepared on the accrual basis of accounting.



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Family and Children's Service (the "Organization"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Frosier, Dent & Hand, PLLC

November 18, 2014
Nashville, Tennessee



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Family and Children's Service's (the "Organization") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2014. 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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 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 the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



November 18, 2014
Nashville, Tennessee

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Family and Children's Service.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Family and Children's Service were disclosed during the audit.
4. No significant deficiencies relating to the audit of major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Family and Children's Service expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The program tested as a major program included:

CFDA Number
93.558

Name of Federal Program or Cluster
Temporary Assistance for Needy Families

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Family and Children's Service qualified as a low-risk auditee.

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year Ended June 30, 2014

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**FAMILY AND CHILDREN'S SERVICE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2014**

None.