FAMILY AND CHILDREN'S SERVICE AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

As of and for the Years Ended June 30, 2020 and 2019

And Reports of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

FAMILY AND CHILDREN'S SERVICE AND AFFILIATE

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

AS OF JUNE 30, 2020

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
Marissa Moses Russ	CASA Board President
Spencer Cummings	CASA Board Secretary/Treasurer
Leslee Alexander	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
Irwin Fisher	Board Member
Andrew Galbierz	Board Member
Don Holmes	Board Member
Rob McNeilly	Board Member
Charley Bairnsfather	Board Member
Tena Mayberry	Board Member
Perri duGard Owens	Board Member
Kevin Roddey	Board Member
Tony Rose, Jr.	Board Member
Alex Ryerson	Board Member
Tracey Silverman	Board Member
Earle Simmons	Board Member
Anne Elizabeth Tachek	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
Allan Leslie	Chief Financial Officer

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, 2020 and 2019, 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, 2020 and 2019, 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 Matter

As discussed in Note 15, towards the end of December 2019, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. There have been various mandates and/or requests from federal, state, and local authorities resulting in closures of non-essential businesses, which could negatively impact the Organization's operations. Although it is not possible to reasonably estimate the length or severity of this outbreak and hence its financial impact, any significant reduction of revenues and support could negatively impact the Organization's operations for an indeterminable time period. Our opinion is not modified with respect to this matter.

Other Matters

Other 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.

The Roster of Board of Directors and Executive Staff on page 1, which is the responsibility of management, is of a nonaccounting nature and has not been subjected to the audit procedures applied in the audit of the consolidated financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2021, 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
April 29, 2021

FAMILY AND CHILDREN'S SERVICE AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,632,852	$ 932,969
Restricted cash	252,721	307,691
Receivables from federal and state grants	285,096	310,501
Unconditional promises to give, current	181,650	487,370
Other receivables	198,706	279,638
Total Current Assets	2,551,025	2,318,169
Unconditional promises to give, net, noncurrent	453,496	722,957
New market tax credit note receivable	6,990,000	6,990,000
Land, building, and equipment, net	9,782,198	9,903,320
Investments	3,966,175	3,994,964
Total Assets	$ 23,742,894	$ 23,929,410
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 206,722	$ 222,259
Accrued payroll and benefits	431,862	390,391
Note payable	1,230,000	-
Deferred grant revenue	717,029	-
Total Current Liabilities	2,585,613	612,650
Note payable	-	1,430,000
New market tax credit debt, less unamortized debt issuance costs	9,794,602	9,748,958
Total Liabilities	12,380,215	11,791,608
Net Assets:		
Without Donor Restrictions:		
Designated	2,213,125	2,213,125
Undesignated	7,777,449	8,063,285
Total Without Donor Restrictions	9,990,574	10,276,410
With Donor Restrictions	1,372,105	1,861,392
Total Net Assets	11,362,679	12,137,802
Total Liabilities and Net Assets	$ 23,742,894	$ 23,929,410

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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support from Operations:			
Federal and state grants and fees	$ 2,562,585	$ -	$ 2,562,585
Contributions	507,526	125,000	632,526
Program service fees	974,102	-	974,102
Other grants	108,309	604,783	713,092
United Way	-	23,953	23,953
Special events	274,237	-	274,237
Miscellaneous income	1,678	-	1,678
Net assets released from restrictions satisfaction of purpose restriction	1,243,023	(1,243,023)	-
Total Revenue and Other Support from Operations	5,671,460	(489,287)	5,182,173
Operating Expenses:			
Program services	4,190,504	-	4,190,504
Management and general	1,409,063	-	1,409,063
Fundraising	602,629	-	602,629
Total Operating Expenses	6,202,196	-	6,202,196
Change in net assets before investment activity	(530,736)	(489,287)	(1,020,023)
Investment Activity:			
Interest and dividends	173,302	-	173,302
Realized and unrealized gain	71,598	-	71,598
Total Investment Activity	244,900	-	244,900
Change in net assets	(285,836)	(489,287)	(775,123)
Net assets, beginning of year	10,276,410	1,861,392	12,137,802
Net assets, end of year	$ 9,990,574	$ 1,372,105	$ 11,362,679

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

FAMILY AND CHILDREN'S SERVICE AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

		Support Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries	$ 2,602,689	$ 724,301	$ 234,977	$ 959,278	$ 3,561,967
Professional fees	441,918	87,187	17,283	104,470	546,388
Employee benefits	229,770	47,963	19,901	67,864	297,634
Payroll taxes	216,142	62,681	18,732	81,413	297,555
Depreciation	183,579	45,266	22,633	67,899	251,478
Bad debt expense	-	-	200,000	200,000	200,000
Interest expense	-	222,806	-	222,806	222,806
Equipment and building expense	49,743	116,059	7,982	124,041	173,784
Financial aid	137,803	873	375	1,248	139,051
Occupancy	71,412	33,833	6,168	40,001	111,413
Travel	100,246	1,901	2,290	4,191	104,437
Supplies	37,255	28,486	8,555	37,041	74,296
Telephone	47,927	10,843	5,117	15,960	63,887
Miscellaneous	19,128	5,930	32,055	37,985	57,113
Insurance	37,545	5,939	2,608	8,547	46,092
Printing and publications	5,754	886	14,786	15,672	21,426
Organizational dues	1,963	12,843	6,350	19,193	21,156
Conferences and meetings	5,831	1,155	753	1,908	7,739
Postage	1,799	111	2,064	2,175	3,974
	$ 4,190,504	$ 1,409,063	$ 602,629	$ 2,011,692	$ 6,202,196

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 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 STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ (775,123)	$ 410,902
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Contributions restricted for long-term purposes	(125,000)	(963,147)
Donated equipment	(19,141)	-
Depreciation	251,478	58,733
Amortization of loan costs	45,644	45,644
Unrealized and realized gain on investments	(71,598)	(382,976)
Changes in operating assets and liabilities:		
Receivables from federal and state grants	25,405	(6,321)
Unconditional promises to give	416,951	246,033
Other receivables	80,932	(41,473)
Accounts payable	(15,537)	(766,309)
Accrued payroll and benefits	41,471	79,507
Deferred grant revenue	717,029	-
Net cash flows from operating activities	572,511	(1,319,407)
Cash flows from investing activities:		
Proceeds from sale of investments	203,484	17,243,037
Purchase of investments	(103,097)	(17,087,523)
Purchase of building and equipment	(111,215)	(5,442,933)
Net cash flows from investing activities	(10,828)	(5,287,419)
Cash flows from financing activities:		
Payments on note payable	(200,000)	(100,000)
Proceeds restricted for long-term purposes	283,230	710,743
Net cash flows from financing activities	83,230	610,743
Change in cash and cash equivalents	644,913	(5,996,083)
Cash and cash equivalents, beginning of year	1,240,660	7,236,743
Cash and cash equivalents, end of year	$ 1,885,573	$ 1,240,660
Cash and cash equivalents consist of the following:		
Cash and cash equivalents	$ 1,632,852	$ 932,969
Restricted cash	252,721	307,691
	$ 1,885,573	$ 1,240,660
Supplemental disclosure of cash flow information:		
Interest paid	$ 177,162	$ 89,178
Noncash investing and financing activities:		
Donated equipment	$ 19,141	$ -

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 9).

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.

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, 2020 and 2019.

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 restricted are reported as increases in net assets with donor restrictions. All other 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 statements of activities as net assets released from restrictions.

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

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 statements of activities. Management considers $200,000 of unconditional promises to give as of June 30, 2020 to be uncollectible and all unconditional promises to give as of June 30, 2019 to be fully collectible. Accordingly, an allowance for doubtful accounts of $200,000 and $-0- has been recorded as of June 30, 2020 and 2019, respectively, in the accompanying consolidated statements of financial position.

Land, Building, and Equipment – It is the Organization's policy to capitalize land, building, and equipment with cost in excess of $5,000. All purchases less than that amount are expensed in the period purchased. Donated land, building, and equipment are reported as contributions at their estimated fair value 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 40 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, 2020.

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.

Change in Accounting Principle – In November 2016, FASB issued Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230),* which requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of- period and end-of-period total amounts shown on the consolidated statements of cash flows. This standard was adopted for the year ended June 30, 2020.

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

In June 2018, FASB issued ASU 2018-08, *Not for Profit Entities (Topic 958): 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 Organization evaluated the new standard and determined that the accounting standard did not require a change to the Organization's practices for recording contributions.

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, 2021. 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.

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, and 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, 2020 and 2019:

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	$ 1,632,852	$ 932,969
Receivables from federal and state grants	285,096	310,501
Unconditional promises to give, net	635,146	1,210,327
Other receivables	198,706	279,638
Investments	3,966,175	3,994,964
Total financial assets	6,717,975	6,728,399
Less amounts not available to be used for general expenditures within one year:		
Board designations	2,213,125	2,213,125
Purpose and time restrictions	1,372,105	1,861,392
Financial assets not available to be used within one year	3,585,230	4,074,517
Financial assets available to meet general expenditures within one year	$ 3,132,745	$ 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 should the need arise to cover operating expenses. Further, the Organization has a line of credit as of June 30, 2020 (see Note 6) and has also secured an additional line of credit as of February 11 2021 (see Note 16) to be drawn upon if needed.

Note 3—Unconditional promises to give

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

	2020	2019
Receivable in less than one year	$ 181,650	$ 487,370
Receivable in one to five years	727,480	755,490
	909,130	1,242,860
Less allowance for doubtful accounts	(200,000)	-
Less unamortized discount	(73,984)	(32,533)
	$ 635,146	$ 1,210,327

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, 2020 and 2019.

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.

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, 2020:

	Level 1	Level 2	Level 3	Total
Equity funds	$ 2,577,835	$ -	$ -	$ 2,577,835
Bond funds	1,382,854	-	-	1,382,854
Money market funds	5,486	-	-	5,486
	$ 3,966,175	$ -	$ -	$ 3,966,175

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
Multi-strategy funds	313,000	-	-	313,000
Money market funds	1,602	-	-	1,602
	$ 3,994,964	$ -	$ -	$ 3,994,964

Note 5—Land, building, and equipment

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

	2020	2019
Land	$ 1,220,000	$ 1,220,000
Building	8,589,200	8,485,985
Equipment	283,209	256,068
	10,092,409	9,962,053
Less accumulated depreciation	(310,211)	(58,733)
	$ 9,782,198	$ 9,903,320

Depreciation expense for the year ended June 30, 2020 and 2019 was $251,478 and $58,733, respectively.

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 based upon the financial institution's index (3.5% at June 30, 2020) and is secured by certain business assets. No borrowings were outstanding at June 30, 2020 and 2019.

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 ("NMTC") transaction (see Note 9). 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 November 1, 2023 and requires monthly interest only payments at a rate of 3.5%. The note payable is secured by the Organization's investments. The balance due at June 30, 2020 and 2019 totaled $1,230,000 and $1,430,000, respectively. In January 2021, this balance was paid in full.

Note 8—Deferred grant revenue

The Organization received a Paycheck Protection Program ("PPP") loan in the amount of $764,400. The PPP loan is granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). PPP loans are considered conditional contributions under ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. The loan must be repaid if the Organization does not overcome certain barriers within the CARES Act. The barriers under the program include the requirement to maintain employee headcount, spend up to 60% of the loan proceeds on certain payroll and employee benefits, and restricts other loan proceeds to be used for other qualifying expenses such as mortgage interest, rent, and utilities. The Organization has recognized grant revenue for a portion of the total loan in the amount of $85,469, which is included in contributions on the consolidated statement of activities for the year ended June 30, 2020, because the conditions for forgiveness had been substantially met at that time. The Organization has deferred recognition of in the amount of $678,931, which is included in deferred grant revenue on the consolidated statement of financial position as of June 30, 2020. Subsequent to June 30, 2020, the Organization received notification of the loan's forgiveness.

Note 9—New Market Tax Credit agreement

During December 2017, the Organization entered into a 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 amortized during the years ended June 30, 2020 and 2019, 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.

Note 9—New Market Tax Credit agreement (continued)

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, 2020 and 2019 totaled approximately $252,000 and $307,000, 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 10—Net assets with donor restrictions

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

	2020	2019
United Way	$ -	$ 72,886
Capital campaign contributions	992,860	1,291,263
Program services	379,245	495,793
Other	-	1,450
	$ 1,372,105	$ 1,861,392

Note 11—Board-designated net assets

As of June 30, 2020 and 2019, 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.

Note 11—Board-designated net assets (continued)

Endowment net asset composition by type of fund as of June 30, 2020 and 2019:

	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 and 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 12—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:

2021	$ 20,250
2022	1,294
	$ 21,544

Rent expense amounted to approximately $41,000 and $78,000 for the years ended June 30, 2020 and 2019, respectively.

Note 13—Concentrations

The Organization's cash account balances for the years ended June 30, 2020 and 2019, exceeded Federal Deposit Insurance Corporation insurance limits by approximately $672,000 and $549,000, 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.

Note 13—Concentrations (continued)

As of June 30, 2020 and 2019, approximately 88% and 77% of unconditional promises to give were received from and two donors, respectively.

For the years ended June 30, 2020 and 2019, contributions from two donors made up approximately 20% and 44%, respectively, of total contribution revenue.

Note 14—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, 2020 and 2019, CASA, Inc. owes the Organization approximately $151,000 and $146,000, respectively, and this amount is included in other receivables on the consolidated statements of financial position. During the year ended June 30, 2020, the Organization and CASA, Inc. negotiated 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. The balance outstanding was paid in full during October 2020.

Note 15—Uncertainty

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 volatility in the financial markets. The coronavirus outbreak and government responses are creating disruption to global supply chains and adversely impacting many industries. 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.

Note 16—Subsequent events

The Organization evaluated subsequent events through April 29, 2021 when the consolidated financial statements were available to be issued and has determined there are no other subsequent events that require disclosure other than those described in Notes 7, 8, 14 and as follows:

The Organization obtained a federal loan of approximately $921,000 under the second round of the CARES Act PPP. Similarly to funding received in 2020, as described in Note 8, the Organization intends to transition such loan to a grant under the program's loan forgiveness provisions.

Effective February 11, 2021, the Organization obtained an additional revolving line of credit in the amount of $1,000,000. The line of credit bears interest at 3.75%, matures February 11, 2023, and is secured by certain investment balances.

SUPPLEMENTARY INFORMATION

FAMILY AND CHILDREN'S SERVICE AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

	FCS	FCS New Market	Eliminations	Consolidated Total
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 1,582,552	$ 50,300	$ -	$ 1,632,852
Restricted cash	-	252,721	-	252,721
Receivables from federal and state grants	285,096	-	-	285,096
Unconditional promises to give, current	181,650	-	-	181,650
Other receivables	198,706	40,833	(40,833)	198,706
Total Current Assets	2,248,004	343,854	(40,833)	2,551,025
Unconditional promises to give, net, noncurrent	453,496	-	-	453,496
New market tax credit note receivable	6,990,000	-	-	6,990,000
Land, building, and equipment, net	74,817	9,707,381	-	9,782,198
Investments	3,966,175	-	-	3,966,175
Total Assets	$ 13,732,492	$ 10,051,235	$ (40,833)	$ 23,742,894
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	$ 115,964	$ 131,591	$ (40,833)	$ 206,722
Accrued payroll and benefits	431,862	-	-	431,862
Note payable	1,230,000	-	-	1,230,000
Deferred grant revenue	717,029	-	-	717,029
Total Current Liabilities	2,494,855	131,591	(40,833)	2,585,613
New market tax credit debt, less unamortized debt issuance costs	-	9,794,602	-	9,794,602
Total Liabilities	2,494,855	9,926,193	(40,833)	12,380,215
Net Assets:				
Without Donor Restrictions:				
Designated	2,213,125	-	-	2,213,125
Undesignated	7,652,407	125,042	-	7,777,449
Total Without Donor Restrictions	9,865,532	125,042	-	9,990,574
With Donor Restrictions	1,372,105	-		1,372,105
Total Net Assets	11,237,637	125,042	-	11,362,679
Total Liabilities and Net Assets	$ 13,732,492	$ 10,051,235	$ (40,833)	$ 23,742,894

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 ACTIVITIES

YEAR ENDED JUNE 30, 2020

	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	$ 2,562,585	$ -	$ 2,562,585	$ -	$ -	$ -	$ -	$ 2,562,585
Contributions	507,526	125,000	632,526	-	-	-	-	632,526
Program service fees	974,102	-	974,102	-	-	-	-	974,102
Other grants	108,309	604,783	713,092	-	-	-	-	713,092
United Way	-	23,953	23,953	-	-	-	-	23,953
Special events	274,237	-	274,237	-	-	-	-	274,237
Miscellaneous income	1,286	-	1,286	70,392	-	70,392	(70,000)	1,678
Inter-entity transfers	(98,359)	-	(98,359)	98,359	-	98,359	-	-
Net assets released from restrictions satisfaction of purpose restriction	1,243,023	(1,243,023)	-	-	-	-	-	-
Total Revenue and Other Support from Operations	5,572,709	(489,287)	5,083,422	168,751	-	168,751	(70,000)	5,182,173
Operating Expenses:								
Program services	3,994,425	-	3,994,425	196,079	-	196,079	-	4,190,504
Management and general	1,193,738	-	1,193,738	285,325	-	285,325	(70,000)	1,409,063
Fundraising	579,996	-	579,996	22,633	-	22,633	-	602,629
Total Operating Expenses	5,768,159	-	5,768,159	504,037	-	504,037	(70,000)	6,202,196
Change in net assets before investment activity	(195,450)	(489,287)	(684,737)	(335,286)	-	(335,286)	-	(1,020,023)
Investment Activity:								
Interest and dividends	173,041	-	173,041	261	-	261	-	173,302
Realized and unrealized gain	71,598	-	71,598	-	-	-	-	71,598
Total Investment Activity	244,639	-	244,639	261	-	261	-	244,900
Change in net assets	49,189	(489,287)	(440,098)	(335,025)	-	(335,025)	-	(775,123)
Net assets, beginning of year	9,816,343	1,861,392	11,677,735	460,067	-	460,067	-	12,137,802
Net assets, end of year	$ 9,865,532	$ 1,372,105	$ 11,237,637	$ 125,042	$ -	$ 125,042	$ -	$ 11,362,679

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

COMPLIANCE INFORMATION

FAMILY AND CHILDREN'S SERVICE AND AFFILIATE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2020

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	1NAVCA180334-01-00	$ 38,005	$ -
	Cooperative Agreement to Support Navigators in Federally-facilitated and State Partnership Marketplaces	93.332	1NAVCA190350-01-00	224,275	-
				262,280	-
U.S. Department of Health and Human Services	Children's Health Insurance Program Reauthorization Act	93.767	1Y1CMS331692-01-00	431,089	-
U.S. Department of Health and Human Services Passed Through:					
TN Dept. of Health and Human Services	Family Focused Solutions	93.558	34530-40320	240,747	-
Total 477 Cluster				240,747	-
TN Dept. of Mental Health and Substance Abuse Services	Tennessee Prevention Network	93.959	DGA 62140_2019-2020_006	46,308	-
TN Commission on Aging and Disability	Medicare Enrollment Assistance	93.071	31602-18024	53,831	-
TN Commission on Aging and Disability	State Health Insurance Program	93.324	31602-19048	64,658	-
TN Dept. of Children's Services	Child Abuse Prevention	93.590	35910-02844	7,500	-
Total U.S. Department of Health and Human Services				1,106,413	-
U.S. Department of Justice	Enhancing Community Responses to the Opioid Crisis: Serving Our Youngest Crime Victims	16.582	2019-V3-GX-0035	143,224	-
U.S. Department of Justice Passed Through:					
TN Dept. of Finance and Administration Office of Criminal Justice	Domestic Violence and Trauma	16.575	2015-VA-GX-0018	237,229	-
TN Commission on Children and Youth	Clinical Case Management	16.540	31601-DP02-19	27,961	-
Total U.S. Department of Justice				408,414	-
Total Federal Awards				1,514,827	-

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

YEAR ENDED JUNE 30, 2020

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	34530-40320	$ 488,788	$ -
TN Dept. of Finance and Administration	Access TN	n/a	31865-00458-02	44,226	-
TN Dept. of Finance and Administration	Access TN	n/a	31865-00458-05	43,031	-
TN Dept. of Children's Services	Relative Caregiver Program	n/a	35910-01891	445,141	-
TN Dept. of Children's Services	Child Abuse Prevention	n/a	35910-02844	18,001	-
TN Dept. of Children's Services	Adverse Childhood Experiences Initiative	n/a	35910-58689	66,523	-
Total State Awards				1,105,710	-
Total Federal and State Awards				$ 2,620,537	$ -

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, 2020. 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 the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

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—Noncash awards

The Organization did not receive noncash federal awards during the year ended June 30, 2020.

Note 4—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.

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*

To 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, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 29, 2021.

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 2020-001 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 2020-002 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
April 29, 2021

Report of Independent Auditor on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To 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, 2020. 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 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 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, 2020.

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 items 2020-003 and 2020-004. 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 2020-003 and 2020-004 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
April 29, 2021

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:	Unmodified			
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
Children's Health Insurance Program Reauthorization Act	93.767

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 2020-001 – 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 transactions for FCS New Market and properly recognize contributions with donor restrictions. These entries included adjustments to record 1) approximately $430,000 entry to properly record FCS New Market transactions and 2) approximately $195,000 of contributions with donor restrictions. Additionally, timely financial reporting and close was not completed.

Effect: The general ledger was misstated.

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

Recommendation: The Family and Children's Service and Affiliate (the "Organization") should employ or contract the required expertise to prepare materially accurate financial reporting.

Management's Response: Management agrees with the finding.

Finding 2020-002 – 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, significant corrections were needed to properly state the total amount of expenditures on the SEFA.

Effect: The SEFA was overstated by approximately $37,000 for CFDA 93.767 Children's Health Insurance Program Reauthorization Act. The SEFA was understated by approximately $135,000 in total for various other grants.

Cause: Internal controls were not sufficient to prevent the SEFA from being significantly 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 2020-003 – 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 timely.

Condition: During the audit, 40 grant disbursements were selected for testing. One exception was noted that totaled approximately $60 in unallowable costs. Additionally, four financial reports were selected for testing. One required financial report was not submitted timely and four financial reports were not reviewed prior to submission.

Effect: The Organization had costs charged to the grant that were unallowable and untimely submission of a financial report.

Cause: The Organization did not have proper controls in place to ensure allowable costs were charged to the grant and to ensure timely and accurate reporting submission.

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 2020-004 – Material Weakness in Internal Control and Material Noncompliance over Reporting for the Children's Health Insurance Program Reauthorization Act

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

Condition: During the audit, four financial reports and four program reports were selected for testing. Two required financial reports were not submitted timely and four financial reports were not reviewed prior to submission. Additionally, there were three program reports that were 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 2019-001 – Material Weakness over Financial Reporting and Close

Finding: 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.

Status: The finding was not corrected in the 2020 fiscal year. See finding 2020-001.

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

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

Status: The finding was not corrected in the 2020 fiscal year. See finding 2020-002.

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

Finding: 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.

Status: The finding was not corrected in the 2020 fiscal year. See finding 2020-003.

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

Finding: 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.

Status: Similar findings were noted during testing for the 2020 fiscal year. See finding 2020-003.

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

Finding: 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.

Status: Similar findings were noted during testing for the 2020 fiscal year. See finding 2020-004.

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

Finding: 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.

Status: No findings of this type were noted during testing for the 2020 fiscal year.

MANAGEMENT'S CORRECTIVE ACTION PLAN

Family & Children's Service

June 30, 2020 Audit

Management began the process of restructuring its finance program at the conclusion of the **FY '18-19 audit** which ended **May 2020**. At this time management took significate steps to address the weaknesses that were identified in the audit beginning with the termination of the former CFO on May 8, 2020. On June 15, 2020, Family & Children's Service hired Allan Leslie, a Certified Public Accountant and Certified Fraud Examiner with 15+ years of experience in finance and accounting, to lead the organization's efforts in restructuring its finance program. Unfortunately, due to the timing of the action items taken management had an expectation of repeat findings as actions began one month prior to the end of the fiscal period that this audit covers.

As a result, the corrective action documented for each finding listed below was already in place prior to the date of this audit report. (Corrective action steps outlined were largely applied to the 20-21 fiscal year not yet audited.) In addition to the hiring of the new CFO, Family & Children's Service has taken the following actions to address material weaknesses: 1) adapted applicable elements of the Finance & Administration's journal entry checklist to strengthen the organization's journal review process (updated in Finance Manual); 2) developed a quick reference card (QRC) of all funding sources that details the program, funding method, GL code, key reporting dates, and unallowed expenses to be used by the financial officer, AOR and navigators; 3) created and filled a Facilities Director position that is responsible for maintaining all fixed assets (including the building) and centralizing all administrative purchases; 4) hired an additional Certified Public Accountant with 20+ years of experience to serve as the organization's accounting manager (reporting to the CFO); 5) implemented a process for the timely preparation and reviews of Cash and Account receivable reconciliations; 6) instituted a 10-day closing schedule to close prior month activities.

2020-001: **Material Weakness over Financial Reporting and Close**

Grantee Response: As stated above, the corrective action for this finding was already in place prior to date of this audit report. In addition to the hiring of the new CFO, Family & Children's Service (F&CS) adapted applicable elements of the Finance & Administration's journal entry checklist to strengthen the organization's journal review process. Accounting Manager will serve as FCS New Market Accountant. F&CS has also put in place a 10-day close cycle that includes the review of monthly financial statements.

2020-002: **Significant Deficiency over Preparation of the Schedule of Expenditures and Federal Awards (SEFA)**

Grantee Response: As stated above, the corrective action for this finding was already in place prior to date of this audit report. In addition to the hiring of the new CFO, Family & Children's Service (F&CS) adapted applicable elements of the Finance & Administration's journal entry checklist to strengthen the organization's journal review process. F&CS has also put in place a 10-day close cycle that includes the review of monthly financial statements as well as the review of program expenses and related invoices (revenue).

2020-003: **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 Marketplace Program**

Grantee Response: As stated above, the corrective action for this finding was already in place prior to date of this audit report. In addition to the hiring of the new CFO, Family & Children's Service (F&CS) adapted applicable elements of the Finance & Administration's journal entry checklist to strengthen the organization's journal review process. F&CS developed a quick reference card (QRC) of all funding sources that details the program, funding method, GL code, key reporting dates, and unallowed expenses to be used by the financial officer, AOR and navigators. F&CS will create a new Employee Relations program code to record all employee team building activities – which was the source of this unallowable charge. F&CS has also put in place a 10-day close cycle that includes the review of monthly financial statements as well as the review of program expenses and related invoices (revenue).

2020-004: **Material Weakness in Internal Control and Material Noncompliance over Reporting for the Children's Health Insurance Program Reauthorization Act**

Grantee Response: As stated above, the corrective action was already in place prior to date of this audit report. All financial and program reporting requirements are reviewed in the weekly Grants Management Meeting that includes the Chief Executive Officer, Chief Financial Officer, Chief Advancement Officer, Chief Program Officer, and the Director of Grants Management. In addition, F&CS has implemented a process to document reviews of financial and program reports prior to submission.

Michael McSurdy, President and CEO: Michael McSurdy Date: 4·28·21

Allan Leslie, CFO: Allan Leslie Date: 4/28/21