

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

**June 30, 2008 and 2007**

## 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

We have audited the accompanying statements of financial position of Family and Children's Service (a nonprofit organization) as of June 30, 2008 and 2007, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family and Children's Service as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2008, on our consideration of Family and Children's Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Fraser, Dean & Howard, PLLC

October 16, 2008

**FAMILY AND CHILDREN'S SERVICE**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 376,101	\$ 193,663
Receivables from federal and state grants	219,473	259,186
Unconditional promises to give	497,262	739,149
Other receivables, net of allowance for doubtful accounts of \$4,317 and \$7,770, respectively	<u>36,318</u>	<u>159,858</u>
Total current assets	1,129,154	1,351,856
Unconditional promises to give	-	18,500
Land, building and equipment, net	793,017	794,471
Investments	<u>3,870,888</u>	<u>4,196,847</u>
Total assets	<u><u>\$ 5,793,059</u></u>	<u><u>\$ 6,361,674</u></u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 100,903	\$ 90,103
Accrued employee leave	<u>124,494</u>	<u>164,510</u>
Total liabilities	<u>225,397</u>	<u>254,613</u>
Net assets:		
Unrestricted:		
Designated for endowment	2,183,126	2,183,125
Other unrestricted	<u>2,727,708</u>	<u>3,033,965</u>
Total unrestricted	4,910,834	5,217,090
Temporarily restricted	<u>656,828</u>	<u>889,971</u>
Total net assets	<u>5,567,662</u>	<u>6,107,061</u>
Total liabilities and net assets	<u><u>\$ 5,793,059</u></u>	<u><u>\$ 6,361,674</u></u>

See accompanying notes.

**FAMILY AND CHILDREN'S SERVICE**  
**STATEMENT OF ACTIVITIES**  
**Year ended June 30, 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support from operations:			
Federal and state grants and fees	\$ 2,506,855	\$ -	\$ 2,506,855
United Way	656,640	478,262	1,134,902
Other grants	692,050	95,981	788,031
Contributions	193,881	8,176	202,057
Program service fees	155,173	-	155,173
Special events, net of direct benefit costs of \$46,210	178,770	-	178,770
Miscellaneous	2,085	-	2,085
Net assets released from restrictions	815,562	(815,562)	-
	<u>5,201,016</u>	<u>(233,143)</u>	<u>4,967,873</u>
Total revenue and other support from operations			
Operating expenses:			
Program services	4,313,760	-	4,313,760
Management and general	737,017	-	737,017
Fundraising	289,157	-	289,157
	<u>5,339,934</u>	<u>-</u>	<u>5,339,934</u>
Total operating expenses			
Change in net assets before other revenue	<u>(138,918)</u>	<u>(233,143)</u>	<u>(372,061)</u>
Other revenue:			
Interest and dividends	119,581	-	119,581
Realized and unrealized losses	(286,919)	-	(286,919)
	<u>(167,338)</u>	<u>-</u>	<u>(167,338)</u>
Total other loss			
Change in net assets	(306,256)	(233,143)	(539,399)
Net assets - beginning of year	<u>5,217,090</u>	<u>889,971</u>	<u>6,107,061</u>
Net assets - end of year	<u>\$ 4,910,834</u>	<u>\$ 656,828</u>	<u>\$ 5,567,662</u>

See accompanying notes.

**FAMILY AND CHILDREN'S SERVICE**  
**STATEMENT OF ACTIVITIES**  
**Year ended June 30, 2007**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support from operations:			
Federal and state grants and fees	\$ 2,971,488	\$ -	\$ 2,971,488
United Way	646,822	720,649	1,367,471
Other grants	1,167,303	73,200	1,240,503
Contributions	539,662	55,699	595,361
Program service fees	397,638	-	397,638
Special events, net of direct benefit costs of \$68,636	157,105	-	157,105
Miscellaneous	3,910	-	3,910
Net assets released from restrictions	949,608	(949,608)	-
	<u>6,833,536</u>	<u>(100,060)</u>	<u>6,733,476</u>
Total revenue and other support from operations			
Operating expenses:			
Program services	5,884,718	-	5,884,718
Management and general	806,434	-	806,434
Fundraising	349,820	-	349,820
	<u>7,040,972</u>	<u>-</u>	<u>7,040,972</u>
Total operating expenses			
Change in net assets before other revenue	<u>(207,436)</u>	<u>(100,060)</u>	<u>(307,496)</u>
Other revenue:			
Interest and dividends	112,407	-	112,407
Realized and unrealized gains	432,808	-	432,808
Gain on sale of property	329,445	-	329,445
	<u>874,660</u>	<u>-</u>	<u>874,660</u>
Total other revenue			
Change in net assets	667,224	(100,060)	567,164
Net assets - beginning of year	<u>4,549,866</u>	<u>990,031</u>	<u>5,539,897</u>
Net assets - end of year	<u>\$ 5,217,090</u>	<u>\$ 889,971</u>	<u>\$ 6,107,061</u>

See accompanying notes.

**FAMILY AND CHILDREN'S SERVICE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended June 30, 2008

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Salaries	\$ 2,729,348	\$ 472,074	\$ 142,829	\$ 3,344,251
Employee benefits	312,660	47,181	19,000	378,841
Payroll taxes	246,850	83,299	9,977	340,126
Partnership collaboration	221,955	-	-	221,955
Professional fees	157,472	31,981	11,295	200,748
Occupancy	127,998	10,123	4,551	142,672
Travel	119,864	6,352	2,125	128,341
Equipment and building expense	61,705	24,398	22,407	108,510
Financial aid	108,066	-	-	108,066
Supplies	47,408	17,770	7,651	72,829
Telephone	48,526	9,474	2,652	60,652
Depreciation	42,500	4,655	1,983	49,138
Miscellaneous	26,964	4,459	12,431	43,854
Advertising	10,493	78	31,102	41,673
Insurance	23,169	12,933	2,334	38,436
Printing and publications	4,877	273	10,696	15,846
Organizational dues	10,865	3,651	1,072	15,588
Conferences and meetings	7,763	5,012	2,475	15,250
Postage	5,277	1,402	4,577	11,256
Interest	-	1,902	-	1,902
	<u>\$ 4,313,760</u>	<u>\$ 737,017</u>	<u>\$ 289,157</u>	<u>\$ 5,339,934</u>

See accompanying notes.

**FAMILY AND CHILDREN'S SERVICE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended June 30, 2007

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 3,576,305	\$ 614,473	\$ 208,715	\$ 4,399,493
Partnership collaboration	619,027	-	-	619,027
Employee benefits	426,494	53,464	22,442	502,400
Payroll taxes	298,417	50,071	16,421	364,909
Professional fees	178,437	10,306	6,969	195,712
Occupancy	144,625	7,562	2,855	155,042
Travel	147,818	5,101	787	153,706
Financial aid	117,744	-	-	117,744
Equipment and building expense	84,697	10,719	7,557	102,973
Supplies	60,120	10,932	7,287	78,339
Advertising	20,202	551	47,535	68,288
Telephone	58,153	6,527	1,651	66,331
Depreciation	49,390	3,638	1,617	54,645
Miscellaneous	26,703	12,265	3,520	42,488
Insurance	30,847	6,288	2,607	39,742
Printing and publications	17,221	1,339	14,864	33,424
Conferences and meetings	12,631	7,398	1,950	21,979
Postage	7,768	1,706	2,435	11,909
Organizational dues	8,119	2,978	608	11,705
Interest	-	1,116	-	1,116
	<u>\$ 5,884,718</u>	<u>\$ 806,434</u>	<u>\$ 349,820</u>	<u>\$ 7,040,972</u>

See accompanying notes.

**FAMILY AND CHILDREN'S SERVICE**  
**STATEMENTS OF CASH FLOWS**  
**Years ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (539,399)	\$ 567,164
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	49,138	54,645
Unrealized and realized losses (gains) on investments	286,919	(432,808)
Gain on sale of property	-	(329,445)
Changes in operating assets and liabilities:		
Receivables from federal and state grants	39,713	50,893
Unconditional promises to give	260,387	(295)
Other receivables	123,540	137,630
Accounts payable and accrued expenses	10,800	(40,214)
Accrued employee leave	<u>(40,016)</u>	<u>(30,444)</u>
Net cash provided by (used in) operating activities	<u>191,082</u>	<u>(22,874)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	165,570	141,350
Purchase of investments	(126,530)	(849,911)
Proceeds from sale of property	-	418,842
Purchase of equipment	<u>(47,684)</u>	<u>(8,558)</u>
Net cash used in investing activities	<u>(8,644)</u>	<u>(298,277)</u>
Cash flows from financing activities:		
Borrowing on line of credit	160,000	150,000
Repayment of borrowings under line of credit	<u>(160,000)</u>	<u>(150,000)</u>
Net cash used in financing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	182,438	(321,151)
Cash and cash equivalents - beginning of year	<u>193,663</u>	<u>514,814</u>
Cash and cash equivalents - end of year	<u>\$ 376,101</u>	<u>\$ 193,663</u>
Supplemental information:		
Interest paid	<u>\$ 1,902</u>	<u>\$ 1,116</u>

See accompanying notes.

**FAMILY AND CHILDREN'S SERVICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008 and 2007**

**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 U.S. generally accepted accounting principles. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Accordingly, net assets of the Organization, and changes therein are classified and reported as follows:

**Unrestricted net assets**

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

*Designated* – Net assets designated by the Organization's Board for particular purposes, presently designated by the Board for endowment.

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

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

**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**  
**June 30, 2008 and 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**FAMILY AND CHILDREN'S SERVICE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2008 and 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Promises to Give**

Contributions are recognized when a donor makes an unconditional promise to give to the Organization. Contributions that are not restricted, or are restricted by the donor and the restriction expires during the fiscal year, are reported as increases in unrestricted net assets. All other contributions are reported as increases in temporarily or permanently restricted net assets. Management considers all unconditional promises to give to be fully collectible at June 30, 2008 and 2007. Accordingly, no allowance for doubtful accounts has been recorded in the accompanying statements of financial position.

**Land, Building and Equipment**

It is the Organization's policy to capitalize land, building and equipment over \$5,000. All purchases less than that amount are expensed in the period incurred. Donated land, building and equipment is reported as contributions at its 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 building.

**Investments**

The Organization's investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Investment income and 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.

**Estimates**

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

**Income Taxes**

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

**Advertising**

Advertising costs are expensed as incurred. Advertising expense totaled \$41,673 and \$68,288 for the years ended June 30, 2008 and 2007, respectively.

**FAMILY AND CHILDREN'S SERVICE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2008 and 2007**

**NOTE 2 – INVESTMENTS**

Investments of the Organization are stated at fair value as of June 30, 2008 and 2007 and consist of the following:

	<u>2008</u>	<u>2007</u>
Mutual funds (held by Diversified Trust Company):		
Money Market funds	\$ 25,046	\$ 13,242
Equity funds	2,278,964	2,560,914
Bond funds	1,423,336	1,455,730
Real estate	<u>135,542</u>	<u>158,961</u>
	3,862,888	4,188,847
Other investments:		
Preferred stock	<u>8,000</u>	<u>8,000</u>
	<u>\$ 3,870,888</u>	<u>\$ 4,196,847</u>

The following schedule summarizes the investment return at June 30:

	<u>2008</u>	<u>2007</u>
Dividends and interest	\$ 119,581	\$ 112,407
Unrealized and realized losses	<u>(286,919)</u>	<u>432,808</u>
	<u>\$ (167,338)</u>	<u>\$ 545,215</u>

**NOTE 3 – LAND, BUILDING AND EQUIPMENT**

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

	<u>2008</u>	<u>2007</u>
Land	\$ 89,000	\$ 89,000
Building	867,362	867,362
Building improvements	10,850	-
Equipment	<u>649,079</u>	<u>612,245</u>
	1,616,291	1,568,607
Less accumulated depreciation	<u>(823,274)</u>	<u>(774,136)</u>
	<u>\$ 793,017</u>	<u>\$ 794,471</u>

**FAMILY AND CHILDREN'S SERVICE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2008 and 2007**

**NOTE 4 – LINE OF CREDIT**

The Organization has a line of credit payable to a bank, interest at bank's prime rate (5.00% at June 30, 2008), interest only payable through maturity (August 11, 2009), at which time remaining principal and interest will be due. The line of credit is unsecured. Amounts available under the line of credit as of June 30, 2008 totaled \$325,000. No borrowings were outstanding at June 30, 2008 or 2007.

**NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS**

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

	<u>2008</u>	<u>2007</u>
<b><u>United Way Programs</u></b>		
CHAMPS	\$ 140,740	\$ 159,730
Helping People in Crisis	112,915	129,271
Napier and Cora Howe Family Resource Centers	87,900	90,838
Operations	57,310	62,440
Counseling Practice Program	33,809	-
Trauma Intervention Center	31,271	44,674
Survivors of Suicide Program	9,928	-
Relative Caregiver Program	4,389	-
Neighbor to Neighbor Training Program	-	49,957
Mental Health Counseling	-	48,300
Senior Solutions	-	40,000
Help for Seniors and Their Families	-	30,000
Domestic Violence Family Treatment Program	-	26,431
Caring Families Program	-	20,211
Family Recovery Program	-	18,797
	<u>478,262</u>	<u>720,649</u>
Program services	159,566	132,322
Unconditional promises to give	<u>19,000</u>	<u>37,000</u>
	<u>\$ 656,828</u>	<u>\$ 889,971</u>

**FAMILY AND CHILDREN'S SERVICE**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2008 and 2007**

**NOTE 6 – LEASES**

The Organization has operating lease commitments for office space and equipment. The following is a schedule of future minimum lease payments at June 30, 2008:

<u>Fiscal Year</u>	
2009	\$ 88,259
2010	69,142
2011	36,804
2012	15,742
2013	<u>1,998</u>
	<u>\$ 211,945</u>

Rent expense amounted to \$139,609 and \$157,461, respectively, for the years ended June 30, 2008 and 2007.

**NOTE 7 – CONCENTRATION OF CREDIT RISK**

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

**NOTE 8 – CONCENTRATION OF REVENUE**

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

**NOTE 9 – SUBSEQUENT EVENT**

Subsequent to June 30, 2008 and through October 16, 2008, the investment market experienced a significant decline in value, which materially affected the value of the investments held by the Organization.