FAMILY AND CHILDREN'S SERVICE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

June 30, 2011 and 2010

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, 2011 and 2010, 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 the 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, 2011 and 2010, 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 25, 2011, on our consideration of Family and Children's Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Our audit was conducted for the purpose of forming an opinion on the basic financial statements. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Frasier, Dean + Howard, PLLC

October 25, 2011

FAMILY AND CHILDREN'S SERVICE
STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	$ 548,275	$ 670,066
Receivables from federal and state grants	334,710	197,672
Unconditional promises to give	408,220	444,367
Other receivables	24,470	36,072
Total current assets	1,315,675	1,348,177
Land, building and equipment, net	741,190	703,063
Investments	3,663,931	3,262,151
Total assets	$ 5,720,796	$ 5,313,391
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 103,763	$ 127,193
Accrued payroll and benefits	163,961	135,546
Total liabilities	267,724	262,739
Net assets:		
Unrestricted:		
Designated for endowment	2,183,125	2,183,125
Other unrestricted	2,749,987	2,350,024
Total unrestricted	4,933,112	4,533,149
Temporarily restricted	519,960	517,503
Total net assets	5,453,072	5,050,652
Total liabilities and net assets	$ 5,720,796	$ 5,313,391

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF ACTIVITIES
Year ended June 30, 2011

	Unrestricted	Temporarily Restricted	Total
Revenue and other support from operations:			
Federal and state grants and fees	$ 1,664,254	$ -	$ 1,664,254
United Way	550,981	408,220	959,201
Other grants	314,679	17,056	331,735
Contributions	115,222	-	115,222
Special events, net of direct benefit costs of $28,852	25,918	67,471	93,389
Program service fees	16,488	-	16,488
Net assets released from restrictions	490,290	(490,290)	-
Total revenue and other support from operations	3,177,832	2,457	3,180,289
Operating expenses:			
Program services	2,718,288	-	2,718,288
Management and general	442,567	-	442,567
Fundraising	205,440	-	205,440
Total operating expenses	3,366,295	-	3,366,295
Change in net assets before investment activity	(188,463)	2,457	(186,006)
Investment activity:			
Interest and dividends	90,958	-	90,958
Realized and unrealized gains	497,468	-	497,468
Total investment income	588,426	-	588,426
Change in net assets	399,963	2,457	402,420
Net assets - beginning of year	4,533,149	517,503	5,050,652
Net assets - end of year	$ 4,933,112	$ 519,960	$ 5,453,072

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF ACTIVITIES
Year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Total
Revenue and other support from operations:			
Federal and state grants and fees	$ 2,069,763	$ -	$ 2,069,763
United Way	516,895	444,367	961,262
Other grants	352,805	30,875	383,680
Contributions	152,950	2,000	154,950
Special events, net of direct benefit costs of $26,886	88,630	-	88,630
Program service fees	4,302	-	4,302
Net assets released from restrictions	481,778	(481,778)	-
Total revenue and other support from operations	3,667,123	(4,536)	3,662,587
Operating expenses:			
Program services	3,074,305	-	3,074,305
Management and general	400,477	-	400,477
Fundraising	269,686	-	269,686
Total operating expenses	3,744,468	-	3,744,468
Change in net assets before investment activity	(77,345)	(4,536)	(81,881)
Investment activity:			
Interest and dividends	85,826	-	85,826
Realized and unrealized losses	298,007	-	298,007
Total investment income	383,833	-	383,833
Change in net assets	306,488	(4,536)	301,952
Net assets - beginning of year	4,226,661	522,039	4,748,700
Net assets - end of year	$ 4,533,149	$ 517,503	$ 5,050,652

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2011

	Program Services	Management and General	Fundraising	Total
Salaries	$ 1,801,302	$ 131,246	$ 129,716	$ 2,062,264
Professional fees	146,178	120,757	12,904	279,839
Payroll taxes	146,947	30,041	8,767	185,755
Employee benefits	114,360	12,890	1,090	128,340
Financial aid	127,176	6,068	305	133,549
Travel	65,873	35,066	1,466	102,405
Supplies	52,789	28,287	1,802	82,878
Occupancy	76,233	4,425	1,366	82,024
Equipment and building expense	48,230	9,367	13,376	70,973
Depreciation	40,061	7,925	1,668	49,654
Telephone	38,797	3,176	5,603	47,576
Insurance	20,235	9,910	883	31,028
Miscellaneous	9,383	15,047	2,492	26,922
Conferences and meetings	12,919	6,864	595	20,378
Advertising	489	225	15,154	15,868
Organizational dues	12,305	932	195	13,432
Printing and publications	1,081	5,762	6,091	12,934
Loss on equipment disposal	-	11,667	-	11,667
Postage	3,930	2,912	1,967	8,809
	$ 2,718,288	$ 442,567	$ 205,440	$ 3,366,295

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2010

	Program Services	Management and General	Fundraising	Total
Salaries	$ 2,039,458	$ 110,033	$ 127,294	$ 2,276,785
Professional fees	175,076	85,666	48,214	308,956
Payroll taxes	171,322	41,434	6,914	219,670
Employee benefits	150,630	24,101	3,017	177,748
Financial aid	118,452	542	-	118,994
Occupancy	95,652	10,237	2,558	108,447
Travel	83,039	24,389	962	108,390
Equipment and building expense	47,160	10,719	10,299	68,178
Supplies	43,968	18,263	3,289	65,520
Telephone	33,476	13,037	941	47,454
Advertising	-	9,281	32,167	41,448
Insurance	23,659	11,432	893	35,984
Miscellaneous	16,721	5,724	11,289	33,734
Depreciation	28,354	3,690	1,173	33,217
Conferences and meetings	10,179	9,282	3,500	22,961
Organizational dues	13,694	5,698	961	20,353
Printing and publications	1,961	15,794	114	17,869
Loss on equipment disposal	16,305	-	-	16,305
Bad debt	-	-	14,000	14,000
Postage	4,374	1,155	2,101	7,630
Partnership collaboration	825	-	-	825
	$ 3,074,305	$ 400,477	$ 269,686	$ 3,744,468

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENTS OF CASH FLOWS
Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ 402,420	$ 301,952
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	49,654	33,217
Unrealized and realized gains on investments	(497,468)	(298,007)
Loss on disposal of equipment	11,667	16,306
Changes in operating assets and liabilities:		
Receivables from federal and state grants	(137,038)	(55,824)
Unconditional promises to give	36,147	20,108
Other receivables	11,602	(3,913)
Accounts payable	(23,430)	54,552
Accrued payroll and benefits	28,415	41,247
Net cash (used in) provided by operating activities	(118,031)	109,638
Cash flows from investing activities:		
Proceeds from sale of investments	171,000	120,840
Purchase of investments	(75,312)	(70,001)
Purchase of equipment	(99,448)	-
Net cash (used in) provided by investing activities	(3,760)	50,839
Net (decrease) increase in cash and cash equivalents	(121,791)	160,477
Cash and cash equivalents - beginning of year	670,066	509,589
Cash and cash equivalents - end of year	$ 548,275	$ 670,066

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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 generally accepted accounting principles in the United States of America as prescribed for not-for-profit organizations. Accordingly, net assets of the Organization, and changes therein are classified and reported as follows:

Unrestricted net assets

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

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

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

Permanently restricted net assets – Net assets subject to donor imposed stipulations that they be maintained permanently by the Organization. Generally, donors of these assets permit the Organization to use all or part of the income earned for general or specific purposes. The Organization has no permanently restricted net assets at June 30, 2011 or 2010.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional Promises to Give

Contributions are recognized when a donor makes an unconditional promise to give to the Organization. Contributions that are not restricted, or are restricted by the donor and the restriction expires during the fiscal year, are reported as increases in unrestricted net assets. All other 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, 2011 and 2010. 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 with cost in excess of $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 accounts for investments in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") guidelines for not-for-profit organizations. Under these guidelines, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Investment income and realized and unrealized gains and losses are reported as changes in unrestricted net assets unless the use of income has been restricted by the donor. See Note 2 for additional information on fair value measurements.

Estimates

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

Income Taxes

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Organization has adopted FASB ASC guidance concerning the accounting for income taxes recognized in an entity's financial statements. This interpretation prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The guidance must be applied to all existing tax positions upon initial adoption. The Organization has not recognized any tax related interest and penalties in the accompanying financial statements. Federal tax years that remain open for examination include the years ended June 30, 2008 through June 30, 2011. Adhering to this guidance had no impact on the Organization's financial position or results of operations.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled $15,868 and $41,448 for the years ended June 30, 2011 and 2010, respectively.

Reclassifications

Certain reclassifications have been made to the June 30, 2010 statements to conform with the June 30, 2011 presentation.

Subsequent Events

The Organization evaluated subsequent events through October 25, 2011, when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the accompanying financial statements.

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Organization has adopted the provisions of the Fair Value Measurement Topic of the FASB ASC. This guidance establishes a framework for measuring fair value for financial assets and financial liabilities. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in actives 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:

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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

Level 2 Inputs to the valuation methodology include:

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

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

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at June 30, 2011 and 2010.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Investments of the Organization are stated at fair value as of June 30, 2011 and 2010 and consist of the following:

	2011		2010	
	Fair Market Value	Quoted Prices in Active Markets for Identical Items (Level 2)	Fair Market Value	Quoted Prices in Active Markets for Identical Items (Level 2)
Mutual funds (held by Diversified Trust Company):				
Money market funds	$ 17,684	$ 17,684	$ 18,193	$ 18,193
Equity funds	2,191,068	2,191,068	1,716,568	1,716,568
Bond funds	1,455,179	1,455,179	1,433,493	1,433,493
Real estate and other	-	-	93,897	93,897
	$ 3,663,931	$ 3,663,931	$ 3,262,151	$ 3,262,151

The following schedule summarizes the investment return at June 30:

	2011	2010
Interest and dividends	$ 90,958	$ 85,826
Realized and unrealized gains (losses)	497,468	298,007
	$ 588,426	$ 383,833

NOTE 3 – LAND, BUILDING AND EQUIPMENT

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

	2011	2010
Land	$ 89,000	$ 89,000
Building	867,362	867,362
Building improvements	24,576	15,553
Equipment	433,427	612,796
	1,414,365	1,584,711
Less accumulated depreciation	(673,175)	(881,648)
	$ 741,190	$ 703,063

NOTE 4 – LINE OF CREDIT

The Organization has a $335,000 line of credit available with a bank, which expires August 18, 2012. The line of credit bears interest at a rate of 3.25% and is secured by all receivables, land, building and equipment. The Organization also has a $300,000 line of credit available with a bank, which expires January 23, 2012. The line of credit bears interest at a rate of 4% and is secured by certain business assets. No borrowings were outstanding at June 30, 2011 or 2010 for either line of credit.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

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

	2011	2010
United Way Programs		
FACES	$ 137,892	$ 139,850
Helping People in Crisis	99,308	123,796
Counseling Practice Program	65,080	65,080
Napier and Cora Howe Family Resource Centers	43,950	43,950
Divorce and Bereavement Program	25,400	26,310
Survivors of Suicide Program	18,351	27,981
Operations	15,000	13,000
Relative Caregiver Program	3,239	4,400
Total United Way Programs	408,220	444,367
Program services	111,740	73,136
	$ 519,960	$ 517,503

NOTE 6 – DESIGNATED FOR ENDOWMENT NET ASSETS

Designated for endowment net assets consist of the following at June 30:

	2011	2010
General Endowment	$ 2,183,125	$ 2,183,125

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 generally accepted accounting principles in the United States of America, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions and board designations.

NOTE 6 – DESIGNATED FOR ENDOWMENT NET ASSETS (Continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2011 and 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	$ 2,183,125	$ -	$ -	$ 2,183,125

Endowment Investment Policy and Risk Parameters

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

Strategies Employed for Achieving Investment Objectives

To satisfy its long term rate of return objectives, the Organization relies on a targeted mix of investments as follows: 0 – 10% cash & cash equivalents; 30 – 50% fixed income; 50 – 70% equities; 0 – 10% real estate.

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

NOTE 7 – LEASES

The Organization has operating lease commitments for office space and equipment through fiscal year 2013. The following is a schedule of future minimum lease payments at June 30, 2011:

Fiscal Year	
2012	$ 33,254
2013	2,394
	$ 35,648

Rent expense amounted to $87,003 and $118,766, respectively, for the years ended June 30, 2011 and 2010.

NOTE 8 – CONCENTRATION OF CREDIT RISK

The Organization may at times have cash amounts at financial institutions in excess of the amount insured by the Federal Deposit Insurance Corporation. Cash balances were within federally insured limits at June 30, 2011 and 2010.

NOTE 9 – CONCENTRATION OF REVENUE

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

SUPPLEMENTAL INFORMATION

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year ended June 30, 2011

FEDERAL AWARDS

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2010	Cash Receipts	Expenditures	Receivable June 30, 2011
U.S. Department of Health and Human Services Passed Through:							
TN Dept. of Health and Human Services	Families First	93.558	GR-08-22022-05	$ -	$ 373,185	$ 471,906	$ 98,721
TN Dept. of Health and Human Services	Families First-District 5	93.558	GR-08-22022-03	34,770	34,770	-	-
TN Dept. of Health and Human Services	Families First-District 6	93.558	GR-08-22041-03	11,096	11,096	-	-
Total for CFDA No. 93.558 *+				45,866	419,051	471,906	98,721
U.S. Department of Justice Passed Through:							
TN Dept. of Finance and Administration Office of Criminal Justice	Domestic Violence Family	16.575	38280510	2,980	28,743	28,869	3,106
TN Dept. of Finance and Administration Office of Criminal Justice	JAGARRA	16.575	36320510	2,008	28,037	27,148	1,119
TN Dept. of Finance and Administration Office of Criminal Justice	Children Traumatized by Violence	16.575	38290510	8,037	83,000	83,184	8,221
Total for CFDA No. 16.575*				13,025	139,780	139,201	12,446
Total Federal Awards				58,891	558,831	611,107	111,167

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
Year ended June 30, 2011

STATE AWARDS

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2010	Cash Receipts	Expenditures	Receivable June 30, 2011
TN Dept. of Health and Human Services	Families First-District 5	n/a	GR-08-22022-05#	-	200,946	254,103	53,157
TN Dept. of Health and Human Services	Families First-District 5	n/a	GR-08-22022-03#	11,590	11,590	-	-
TN Dept. of Health and Human Services	Families First-District 6	n/a	GR-08-22041-03#	3,699	3,699	-	-
TN Dept. of Children's Services	Relative Caregiver Program	n/a	GR-06-17231-02	65,919	65,919	-	-
TN Dept. of Children's Services	Relative Caregiver Program	n/a	GR-11-31770	-	380,850	480,592	99,742
TN Dept. of Children's Services	Permanency Groups	n/a	GR-10-29108-00#	54,934	54,934	-	-
TN Dept. of Children's Services	Permanency Groups	n/a	GR-11-33580	-	237,252	306,122	68,870
TN Dept. of Children's Services	Home Studies - Shelby Co.	n/a	FA-08-25307-00	1,375	6,995	7,394	1,774
TN Dept. of Children's Services	Home Studies - Upper Cumberland	n/a	FA-08-25513-00	1,264	6,200	4,936	-
Total State Awards				138,781	968,385	1,053,147	223,543
Total Federal and State Awards				$ 197,672	$ 1,527,216	$ 1,664,254	$ 334,710

*Cash grant receipts represent federal pass-through funds

+ Indicates a major program

Represents state's portion of grant

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

NOTE 1 - BASIS OF ACCOUNTING

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

FRASIERDEAN
HOWARDCPAs

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

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

We have audited the financial statements of Family and Children's Service as of and for the year ended June 30, 2011, and have issued our report thereon dated October 25, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Family and Children's Service's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Family and Children's Service's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

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

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

Frasier, Dean & Howard, PLLC

October 25, 2011

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited Family and Children's Service's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Family and Children's Service's major federal programs for the year ended June 30, 2011. Family and Children's Service's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Family and Children's Service's management. Our responsibility is to express an opinion on Family and Children's Service's compliance based on our audit.

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

In our opinion, Family and Children's Service complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not be designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Frasier, Dean & Howard, PLLC

October 25, 2011

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2011

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Family and Children's Service.

2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of Family and Children's Service were disclosed during the audit.

4. No significant deficiencies relating to the audit of major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

5. The auditor's report on compliance for the major federal award programs for Family and Children's Service expresses an unqualified opinion on all major federal programs.

6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.

7. The programs tested as major programs included:

CFDA Number	Name of Federal Program or Cluster
93.558	Families First

8. The threshold for distinguishing Types A and B programs was $300,000.

9. Family and Children's Service qualified as a low-risk auditee.

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

FAMILY AND CHILDREN'S SERVICE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2011

None.