

FAMILY AND CHILDREN'S SERVICE

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

June 30, 2005 and 2004

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F R A S I E R , D E A N & H O W A R D , P L L C

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Family and Children's Service (a nonprofit organization) as of June 30, 2005 and 2004, 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, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2005, on our consideration of Family and Children's Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Frasier, Dean & Howard PLLC

August 26, 2005

FAMILY AND CHILDREN'S SERVICE
STATEMENTS OF FINANCIAL POSITION
June 30, 2005 and 2004

Assets	2005	2004
Current assets:		
Cash and cash equivalents	\$ 522,191	\$ 255,045
Assets held on behalf of NAC 7	78,772	103,417
Receivables from federal and state grants	359,210	487,935
Unconditional promises to give	784,132	679,392
Other receivables, net of allowance for doubtful accounts of \$6,535 and \$14,715, respectively	62,108	16,435
Total current assets	1,806,413	1,542,224
Receivables from Crisis Intervention Center, Inc.	80,000	-
Land, building and equipment, less accumulated depreciation	822,257	732,978
Investments	2,949,316	2,706,991
Total assets	<u>\$ 5,657,986</u>	<u>\$ 4,982,193</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 66,145	\$ 59,126
Accrued employee leave	176,958	151,163
Deferred revenue	-	29,373
Notes payable	113,093	-
Assets held on behalf of NAC 7	78,772	103,417
Total current liabilities	434,968	343,079
Notes payable, net of current portion	141,673	-
Total liabilities	<u>576,641</u>	<u>343,079</u>
Net assets:		
Unrestricted:		
Designated for endowment	1,343,977	1,343,977
Other unrestricted	2,829,413	2,475,937
Total unrestricted	4,173,390	3,819,914
Temporarily restricted	907,955	819,200
Total net assets	<u>5,081,345</u>	<u>4,639,114</u>
Total liabilities and net assets	<u>\$ 5,657,986</u>	<u>\$ 4,982,193</u>

See accompanying notes.

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

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

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF ACTIVITIES
Year ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support from operations:			
Federal and State grants and fees	\$3,669,616	\$ -	\$ 3,669,616
United Way	115,477	629,670	745,147
Program service fees	626,685	-	626,685
Contributions	155,800	84,583	240,383
Other grants	130,559	174,770	305,329
Thomas trust	446,312	-	446,312
Special events, net of direct benefit costs of \$58,564	157,442	-	157,442
Miscellaneous	504	-	504
Net assets released from restrictions	892,201	(892,201)	-
	<u>6,194,596</u>	<u>(3,178)</u>	<u>6,191,418</u>
Total revenue and other support from operations			
Operating expenses:			
Counseling and adoption services	4,918,911	-	4,918,911
Management and general	708,423	-	708,423
Fundraising	124,087	-	124,087
	<u>5,751,421</u>	<u>-</u>	<u>5,751,421</u>
Total operating expenses			
Change in net assets before investment income	443,175	(3,178)	439,997
Investment income:			
Interest and dividends	56,970	-	56,970
Realized and unrealized gains	255,828	-	255,828
	<u>312,798</u>	<u>-</u>	<u>312,798</u>
Investment income, net			
Change in net assets	755,973	(3,178)	752,795
Net assets - beginning of year	3,063,941	822,378	3,886,319
Net assets - end of year	<u>\$3,819,914</u>	<u>\$ 819,200</u>	<u>\$ 4,639,114</u>

See accompanying notes.

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

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

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2004

	Counseling and Adoption Services	Management and General	Fundraising	Total
Salaries	\$ 3,127,832	\$ 546,644	\$ 70,703	\$ 3,745,179
Employee benefits	395,779	50,898	6,277	452,954
Payroll taxes	241,825	29,690	4,073	275,588
Professional fees	143,949	13,516	6,965	164,430
Travel	146,527	3,364	1,525	151,416
Partnership Collaboration	135,263	-	-	135,263
Financial aid	134,195	-	-	134,195
Occupancy	125,808	6,613	999	133,420
Equipment and building expense	87,238	9,247	6,882	103,367
Supplies	71,720	12,112	3,662	87,494
Telephone	74,625	3,703	1,008	79,336
Depreciation	59,204	4,885	704	64,793
Insurance	43,054	6,378	1,008	50,440
Printing and publications	35,188	962	10,115	46,265
Miscellaneous	14,345	12,970	3,110	30,425
Lifeworks	24,560	25	-	24,585
Postage	16,543	972	5,475	22,990
Organizational dues	17,743	2,937	487	21,167
Conferences and meetings	9,377	2,035	443	11,855
Advertising	8,295	1,472	651	10,418
Bad debts	4,742	-	-	4,742
Interest	1,099	-	-	1,099
	<u>\$ 4,918,911</u>	<u>\$ 708,423</u>	<u>\$ 124,087</u>	<u>\$ 5,751,421</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
STATEMENTS OF CASH FLOWS
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ 442,231	\$ 752,795
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	54,175	64,793
Unrealized and realized gains on investments	(191,077)	(255,828)
Noncash contribution	(58,108)	-
Loss on fixed assets	4,365	944
Changes in current assets and liabilities:		
Assets held on behalf of NAC 7	24,645	71,506
Receivables from federal and state grants	128,725	(44,456)
Unconditional promises to give	(104,740)	(6,078)
Other receivables	(9,918)	12,804
Accounts payable and accrued expenses	7,019	18,786
Accrued employee leave	9,460	11,986
Assets held on behalf of NAC 7	(24,645)	(71,506)
Deferred revenue	(29,373)	29,373
Net cash provided by operating activities	<u>252,759</u>	<u>585,119</u>
Cash flows from investing activities:		
Proceeds from sale of investments	305,183	66,156
Purchase of investments	(356,431)	(824,394)
Purchase of equipment	(4,904)	(44,042)
Proceeds from sale of property	-	86,841
Cash contributed pursuant to asset conveyance of Crisis Intervention Center, Inc.	<u>70,539</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>14,387</u>	<u>(715,439)</u>
Cash flows from financing activities:		
Proceeds from borrowings under line of credit	-	150,000
Repayment of borrowings under line of credit	<u>-</u>	<u>(150,000)</u>
Net cash provided by financing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	267,146	(130,320)
Cash and cash equivalents - beginning of year	<u>255,045</u>	<u>385,365</u>
Cash and cash equivalents - end of year	<u>\$ 522,191</u>	<u>\$ 255,045</u>
Supplemental information:		
Interest paid	<u>\$ -</u>	<u>\$ 1,099</u>
Noncash investing and financing activity from conveyance of assets and liabilities of Crisis Intervention Center, Inc.:		
Noncash assets acquired	<u>\$ 258,669</u>	<u>\$ -</u>
Liabilities assumed	<u>\$ 271,100</u>	<u>\$ -</u>

See accompanying notes.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activity

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

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Accordingly, net assets of the Organization, and changes therein are classified and reported as follows:

Unrestricted net assets

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

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

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

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

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Promises to Give

Contributions are recognized when a donor makes an unconditional promise to give to the Organization. Contributions that are not restricted, or are restricted by the donor and the restriction expires during the fiscal year, are reported as increases in unrestricted net assets. All other contributions are reported as increases in temporarily or permanently restricted net assets. Management considers all unconditional promises to give fully collectible at June 30, 2005 and 2004.

Property and Equipment

It is the Organization's policy to capitalize property and equipment over \$750. All purchases less than that amount are expensed in the period incurred. Donated property and equipment is reported as contributions at its estimated fair value. Unless donor-restricted, all donated property and equipment are reported as increases in unrestricted net assets. Property and equipment are depreciated over their useful lives using the straight-line method. Useful lives range from three years for computer equipment to forty years for building.

Investments

The Organization's investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Investment income and unrealized gains and losses are reported as changes in unrestricted net assets unless the use of income has been restricted by the donor.

Estimates

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

Income Taxes

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

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005 and 2004

NOTE 2 – NAC 7 DEPOSITS

The Organization is participating with six Nashville area nonprofit agencies in a collaborative effort to evaluate ways to reduce overhead and administrative expense. The collaboration has taken the name Nashville Agency Collaboration of Seven ("NAC 7") and is currently unincorporated. During 2001, the Organization received \$249,500 in grant funds on behalf of NAC 7. The funds are considered to be the assets of NAC 7 and are therefore presented in the accompanying statement of financial position as deposits. At June 30, 2005 and 2004, the assets held on behalf of NAC 7 totaled \$78,772 and \$103,417, respectively.

NOTE 3 – INVESTMENTS

Investments of the Organization are stated at fair value as of June 30, 2005 and 2004 and consist of the following:

	<u>2005</u>	<u>2004</u>
Mutual funds (held by Diversified Trust Company):		
Money Market funds	\$ 16,617	\$ 5,509
Equity funds	1,585,047	1,696,103
Bond funds	912,737	747,379
Real estate	<u>176,915</u>	<u>-</u>
	2,691,316	2,448,991
Other investments:		
Preferred stock	8,000	8,000
Certificate of deposit (1.74%, matures 12/14/04)	-	200,000
Certificate of deposit (1.25%, matures 3/13/05)	-	50,000
Certificate of deposit (2.8%, matures 2/16/06)	<u>250,000</u>	<u>-</u>
	<u>\$ 2,949,316</u>	<u>\$ 2,706,991</u>

NOTE 4 – LAND, BUILDING AND EQUIPMENT

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

	<u>2005</u>	<u>2004</u>
Land	\$ 138,913	\$ 89,000
Land improvements	7,106	-
Building	936,875	753,002
Equipment	621,371	453,945
Vehicles	<u>-</u>	<u>4,365</u>
	1,704,265	1,300,312
Less accumulated depreciation	<u>(882,008)</u>	<u>(567,334)</u>
	<u>\$ 822,257</u>	<u>\$ 732,978</u>

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005 and 2004

NOTE 5 – NOTES PAYABLE

	<u>2005</u>	<u>2004</u>
Line of credit payable to bank, interest at bank's prime rate plus .25% (6.50% at June 30, 2005), payable interest only through maturity (November 22, 2007), at which time remaining principal and interest will be due. The line of credit is unsecured. Amounts available under the line of credit as of June 30, 2005 totaled \$325,000.	\$ -	\$ -
Line of credit payable to bank, interest at bank's prime rate plus .25% (6.50% at June 30, 2005), payable interest only through maturity (February 21, 2006), at which time remaining principal and interest will be due. The line of credit is secured by real property. Amounts available under the line of credit as of June 30, 2005 totaled \$200,000. Line of credit received as a result of the asset acquisition agreement (Note 11).	106,760	-
Note payable to bank, interest at 6.50% annum secured by a first mortgage on real property; monthly payments of principal and interest based on a fifteen year amortization period with a final maturity of February 21, 2010. Note payable received as a result of the asset acquisition agreement (Note 11).	<u>148,006</u>	<u>-</u>
	254,766	-
Less amounts shown as current	<u>113,093</u>	<u>-</u>
	<u>\$ 141,673</u>	<u>\$ -</u>

The following is a schedule of future principal maturities of long-term debt as of June 30, 2005:

Year Ended <u>June 30,</u>	
2006	\$ 113,093
2007	6,757
2008	7,209
2009	7,692
2010	<u>120,015</u>
	<u>\$ 254,766</u>

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005 and 2004

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2005</u>	<u>2004</u>
Napier and Cora Howe Family Resource Centers	\$ 93,450	\$ 89,000
CHAMPS	160,996	160,761
Trauma Intervention Center	44,674	48,636
Mental Health Counseling	76,670	84,009
Help for Seniors and Their Families	52,451	54,623
Operations	32,861	42,000
Domestic Violence Family Treatment Program	37,357	40,618
Caring Families Program	33,182	33,760
Family Recovery Program	24,124	26,226
Neighbor to Neighbor Training Program	49,957	50,037
Senior Solutions	34,060	-
Helping People in Crisis	<u>127,059</u>	<u>-</u>
	766,841	629,670
Program services	<u>141,114</u>	<u>189,530</u>
	<u>\$ 907,955</u>	<u>\$ 819,200</u>

NOTE 7 – LEASES

The Organization has operating lease commitments for office space and equipment. The following is a schedule of future minimum lease payments at June 30, 2005:

<u>Fiscal Year</u>	
2006	\$ 81,470
2007	16,640
2008	1,320
2009	-
2010	<u>-</u>
	<u>\$ 99,430</u>

Rent expense amounted to \$111,504 and \$105,383, respectively, for the years ended June 30, 2005 and 2004.

FAMILY AND CHILDREN'S SERVICE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005 and 2004

NOTE 8 – CONCENTRATION OF CREDIT RISK

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

NOTE 9 – CONCENTRATION OF REVENUE

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

NOTE 10 – THOMAS TRUST

The Organization received the proceeds of John W. Thomas Memorial Fund ("Trust") during fiscal 2004. Total proceeds received amounted to \$446,312 and have been board designated for endowment purposes.

NOTE 11 – ASSET CONVEYANCE

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

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

SUPPLEMENTAL INFORMATION

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year ended June 30, 2005

FEDERAL AWARDS

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2004	Cash Receipts	Expenditures	Receivable June 30, 2005
U.S. Dept. of Health and Human Services	Childhood Trauma Intervention Center	93.243	1 U79 SM56082-01	\$ -	\$ 447,423	\$ 447,423	\$ -
Total for CFDA No. 93.243				-	447,423	447,423	-
U.S. Department of Health and Human Services Passed Through:							
TN Dept. of Health and Human Services	Families First-District 5	93.558	GR-03-14926-02	27,375	312,987	295,215	9,603
TN Dept. of Health and Human Services	Families First-District 6	93.558	GR-03-14925-03	19,404	233,500	214,731	635
TN Dept. of Children's Services	Relative Caregiver Program	93.558	GR-04-15680-00	48,083	48,083	-	-
TN Dept. of Children's Services	Relative Caregiver Program	93.558	GR-05-16435-00	-	484,570	543,168	58,598
Total for CFDA No. 93.558 **				94,862	1,079,140	1,053,114	68,836
TN Dept. of Children's Services	Social Services Block Grant	93.667	GR-05-16622-00	-	39,554	40,433	879
TN Dept. of Children's Services	Social Services Block Grant	93.667	GR-03-15196-00	2,766	2,766	-	-
Total for CFDA No. 93.667 *				2,766	42,320	40,433	879
TN Dept. of Children's Services	REACT	93.556	GR-04-15913-00	16,343	16,343	-	-
TN Dept. of Children's Services	Nashville Center for Adoption	93.556	GR-04-15912-00	31,022	31,022	-	-
Total for CFDA No. 93.556*				47,365	47,365	-	-
TN Dept. of Children's Services	REACT	93.659	GR-04-15913-00	25,960	25,960	-	-
TN Dept. of Children's Services	REACT	93.659	GR-05-16620-00	-	213,721	241,467	27,746
TN Dept. of Children's Services	Nashville Center for Adoption	93.659	GR-04-15912-00	47,736	47,736	-	-
TN Dept. of Children's Services	Nashville Center for Adoption	93.659	GR-05-16621-00	-	200,793	221,373	20,580
Total for CFDA No. 93.659 *				73,696	488,210	462,840	48,326
U.S. Department of Justice Passed Through:							
TN Dept. of Finance and Administration Office of Criminal Justice	Crime Victim Assistance	16.575	Z-00-099346-01	573	26,339	29,288	3,522
TN Dept. of Finance and Administration Office of Criminal Justice	Crime Victim Assistance	16.575	Z-00-099347-01	-	77,921	87,232	9,311
Total for CFDA No. 16.575*				573	104,260	116,520	12,833
Total Federal Awards				219,262	2,208,718	2,120,330	130,874

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Continued from Page 15)
Year ended June 30, 2005

FEDERAL AWARDS (Continued)

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2004	Cash Receipts	Expenditures	Receivable June 30, 2005
STATE AWARDS							
TN Dept. of Health and Human Services	Families First-District 5	93.558	GR-03-14926-02#	50,839	530,421	548,256	68,674
TN Dept. of Health and Human Services	Families First-District 6	93.558	GR-03-14925-03#	36,035	378,203	398,787	56,619
TN Dept. of Children's Services	Needs Assessment - Adoption and Foster	n/a	GR-05-16987-00	-	-	30,555	30,555
TN Dept. of Children's Services	REACT	93.659	GR-04-15913-00#	63,663	63,663	-	-
TN Dept. of Children's Services	REACT	93.659	GR-03-16620-00#	-	320,582	362,200	41,618
TN Dept. of Children's Services	Nashville Center for Adoption	93.659	GR-04-15912-00#	118,136	118,136	-	-
TN Dept. of Children's Services	Nashville Center for Adoption	93.659	GR-03-16621-00#	-	301,189	332,059	30,870
Total State Awards				268,673	1,712,194	1,671,857	228,336
Total Federal and State Awards				\$ 487,935	\$ 3,920,912	\$ 3,792,187	\$ 359,210

*Cash grant receipts represent federal pass-through funds

Represents state's portion of grant

+ Indicates a major program

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

NOTE 1 - BASIS OF ACCOUNTING

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



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CERTIFIED PUBLIC ACCOUNTANTS

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

The Board of Directors
Family and Children's Service

We have audited the financial statements of Family and Children's Service (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated August 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Family and Children's Service in a separate letter dated August 26, 2005.

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

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

Frasin, Dean & Howard, PLLC

August 26, 2005



F R A S I E R , D E A N & H O W A R D , P L L C

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

The Board of Directors
Family and Children's Service

Compliance

We have audited the compliance of Family and Children's Service (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2005. Family and Children's Service's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Family and Children's Service's management. Our responsibility is to express an opinion on Family and Children's Service's compliance based on our audit.

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

In our opinion, Family and Children's Service complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2005-1.

Internal Control Over Compliance

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

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

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

Fraser Dean & Howard PLLC

August 26, 2005

**FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2005**

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

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

☐ Yes ☒ None Reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major program:

Material weakness(es) identified? ☐ Yes ☒ No

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

☐ Yes ☒ None Reported

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

Unqualified

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

☒ Yes ☐ No

Identification of major programs:

CFDA Number

93.558

Name of Federal Program or Cluster

Temporary Assistance for Needy Families

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

\$300,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

FAMILY AND CHILDREN'S SERVICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year ended June 30, 2005

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

A. Reportable Conditions in Internal Control

None.

B. Compliance Findings

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

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

		<u>Questioned Costs</u>
2005-1	<p><u>Statement of Condition:</u> Amounts charged to the grant relating to equipment repairs and maintenance, printing, travel and specific assistance did not adhere to the respective line-items approved in the grant budget.</p> <p><u>Criteria:</u> All expenditures shall adhere to the grant budget. The Grantee may request budget revisions which must be approved and documented in writing by the Grantor agency.</p> <p><u>Effect of Condition:</u> Amounts reimbursed could be subject to disallowance.</p> <p><u>Cause of Condition:</u> Organization management believed that expenditures had been verbally approved by the Grantor agency.</p> <p><u>Auditor's recommendation:</u> We recommend the Organization adhere to the grant budget or obtain written approval from the Grantor agency for all budget revisions.</p> <p><u>Grantee's response:</u> Organization management agrees with the finding and the auditor's recommendation will be implemented.</p>	<p>\$ 15,418</p>

FAMILY AND CHILDREN'S SERVICE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2005

None