

TENNESSEE FAMILY SOLUTIONS, INC.
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

TENNESSEE FAMILY SOLUTIONS, INC.

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Independent Auditor's Report

The Board of Directors
Tennessee Family Solutions, Inc.
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Tennessee Family Solutions, Inc. (a Tennessee not-for-profit corporation), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tennessee Family Solutions, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018, on our consideration of Tennessee Family Solutions, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tennessee Family Solutions, Inc.'s internal control over financial reporting and compliance.

Crosslin, PLLC

Nashville, Tennessee
September 26, 2018

TENNESSEE FAMILY SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2018	2017
Cash and cash equivalents	\$ 1,072,728	\$ 1,421,768
Agency fund cash note (Note B)	102,232	102,142
Accounts receivable, no allowance considered necessary	1,609,008	1,651,039
Other receivables	38,876	43,892
Prepaid expenses and other assets	80,160	65,418
Property, buildings, and equipment, net (Notes C, D, E and G)	12,879,052	10,552,738
Total assets	\$ 15,782,056	\$ 13,836,997

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 206,812	\$ 449,675
Funds held in custody for residents (Note B)	102,232	102,142
Accrued payroll and compensated absences	584,398	586,818
Notes payable, net (Note E)	3,561,963	239,683
Capital lease payable (Note G)	-	904,069
Bonds payable, net (Note D)	6,644,372	7,091,023
Total liabilities	11,099,777	9,373,410
Net Assets:		
Unrestricted	4,682,279	4,463,587
Total net assets	4,682,279	4,463,587
Total liabilities and net assets	\$ 15,782,056	\$ 13,836,997

See accompanying notes to financial statements.

TENNESSEE FAMILY SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES

	Unrestricted	
	Year Ended June 30,	
	2018	2017
Support:		
Contributions	\$ 13,459	\$ 7,698
Total support	13,459	7,698
Revenue:		
Health and related services, net	11,246,430	11,514,620
Other income	11,013	10,050
Total revenue	11,257,443	11,524,670
Total support and revenue	11,270,902	11,532,368
Expenses:		
Program services	8,896,900	9,223,205
General and administrative	2,155,310	1,765,696
Total expenses	11,052,210	10,988,901
Increase in net assets	218,692	543,467
Net assets at beginning of year	4,463,587	3,920,120
Net assets at end of year	\$ 4,682,279	\$ 4,463,587

See accompanying notes to financial statements.

TENNESSEE FAMILY SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017

	2018		
	Program Services	General and Administrative	Total
Salaries	\$ 5,539,268	\$ 855,771	\$ 6,395,039
Employee benefits and taxes	540,693	326,549	867,242
Total salaries and related expenses	<u>6,079,961</u>	<u>1,182,320</u>	<u>7,262,281</u>
Advertising	-	31,639	31,639
Property leases	190,745	48,676	239,421
Property taxes and dues	34,162	10,642	44,804
Utilities	222,083	12,612	234,695
Food	268,720	3,879	272,599
Maintenance	101,889	68,091	169,980
Equipment lease	34,530	21,901	56,431
Supplies	218,389	31,582	249,971
Travel	71,611	33,901	105,512
Professional services	94,396	148,861	243,257
ICF/MR tax	122,941	-	122,941
Other operating expenses	-	18,795	18,795
Insurance	-	238,490	238,490
Administrative services	64,480	148,867	213,347
Foster care program	141,238	-	141,238
Communication	150,481	33,409	183,890
Loss on debt extinguishment	-	25,589	25,589
Total other expenses	<u>1,715,665</u>	<u>876,934</u>	<u>2,592,599</u>
Total operating expenses before interest, depreciation, and amortization	7,795,626	2,059,254	9,854,880
Interest expense	572,546	34,051	606,597
Amortization expense	18,844	9,761	28,605
Depreciation expense	509,884	52,244	562,128
Total expenses per statement of activities	<u>\$ 8,896,900</u>	<u>\$ 2,155,310</u>	<u>\$ 11,052,210</u>

2017		
<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
\$ 5,760,423	\$ 649,229	\$ 6,409,652
584,203	303,440	887,643
<u>6,344,626</u>	<u>952,669</u>	<u>7,297,295</u>
-	22,052	22,052
230,195	90,215	320,410
46,286	15,600	61,886
212,811	13,597	226,408
279,167	3,803	282,970
128,328	51,844	180,172
50,125	21,700	71,825
227,701	24,901	252,602
68,628	36,389	105,017
99,421	130,449	229,870
133,681	-	133,681
-	16,656	16,656
-	187,839	187,839
69,960	151,181	221,141
70,219	-	70,219
134,380	28,073	162,453
-	-	-
<u>1,750,902</u>	<u>794,299</u>	<u>2,545,201</u>
8,095,528	1,746,968	9,842,496
612,677	35	612,712
18,844	3,688	22,532
<u>496,156</u>	<u>15,005</u>	<u>511,161</u>
<u>\$ 9,223,205</u>	<u>\$ 1,765,696</u>	<u>\$ 10,988,901</u>

See accompanying notes to financial statements.

TENNESSEE FAMILY SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended June 30,	
	2018	2017
Cash flows from operating activities:		
Increase in net assets	\$ 218,692	\$ 543,467
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Items not requiring cash:		
Depreciation and amortization	590,733	533,693
Gain on sale of equipment	(6,093)	(6,679)
Loss on debt extinguishment	25,589	-
Changes in:		
Receivables	47,047	12,130
Prepaid expenses and other assets	(14,742)	(12,912)
Accounts payable and accrued expenses	(245,283)	271,623
Net cash provided by operating activities	615,943	1,341,322
Cash flows from investing activities:		
Purchases of property, buildings and equipment	(1,792,156)	(1,467,805)
Proceeds from sale of equipment	6,093	6,679
Net cash used in investing activities	(1,786,063)	(1,461,126)
Cash flows from financing activities:		
Proceeds from note payable	1,424,634	275,366
Debt issuance costs	(45,147)	(39,371)
Principal payments on capital lease liabilities	(49,435)	(65,911)
Principal payments on bonds payable	(465,494)	(430,221)
Principal payment on notes payable	(43,478)	(4,854)
Net cash provided by (used in) financing activities	821,080	(264,991)
Net change in cash and cash equivalents	(349,040)	(384,795)
Cash and cash equivalents at beginning of year	1,421,768	1,806,563
Cash and cash equivalents at end of year	\$ 1,072,728	\$ 1,421,768
Supplemental disclosures:		
Cash paid for interest	\$ 595,714	\$ 612,712
Noncash investing/financing activities:		
Property purchased through issuance of a note payable	\$ 1,096,286	\$ -
Capital lease liability settled through the purchase of the leased property through issuance of a note payable	\$ 854,634	
Note payable repaid through issuance of a note payable	\$ 1,559,230	\$ -

See accompanying notes to financial statements.

TENNESSEE FAMILY SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and General

Tennessee Family Solutions, Inc., (the Corporation) is a nonprofit corporation organized on October 25, 1999. The Corporation's primary mission is to provide residential and support services to children and adults with severe and multiple disabilities allowing them the opportunity to lead safe, stable and personally fulfilling lifestyles in Tennessee communities. Orchard Foundation, LLC is a wholly-owned subsidiary of the Corporation, formed in fiscal 2011 for the purpose of future acquisition and development of residential care facilities. The financial statements and footnotes are presented on a consolidated basis with all significant intercompany balances and transactions eliminated in the consolidation. The significant accounting policies and practices followed by the Corporation, are presented below to assist the reader in evaluating the consolidated financial statements.

Basis of Presentation

The consolidated financial statements of the Corporation have been prepared using the accrual basis of accounting.

The Corporation classifies its support, revenue, expenses, gains, and losses into three classes of net assets based on the existence or absence of donor-imposed restrictions. Net assets of the Corporation and changes therein are classified as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Funds designated by the Corporation's Board represent funds for which the Board has set general guidelines for use and are classified as unrestricted net assets.

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

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Corporation.

The amount for each of these classes of net assets is presented in the consolidated statements of financial position and the amount of change in each class of net assets is displayed in the consolidated statements of activities. There were no temporarily or permanently restricted net assets as of June 30, 2018 and 2017.

TENNESSEE FAMILY SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

The Corporation reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash and Cash Equivalents

The Corporation considers all cash and liquid investments purchased with an original maturity of three months or less to be cash and cash equivalents. The Corporation maintains cash balances in financial institutions that it considers to be high quality financial institutions. (See Note M).

Accounts Receivable

Accounts receivable are carried at cost less an allowance for doubtful accounts. Accounts receivable are periodically evaluated for collectability. Provisions for uncollectible accounts are determined on the basis of experience, known and inherent risks, and current economic conditions. No allowance was considered necessary at June 30, 2018 and 2017.

TENNESSEE FAMILY SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property, Buildings, and Equipment

Property, buildings, and equipment are carried at cost. Property donated is recorded at its estimated market value at the date of the gift. The Corporation capitalizes asset additions greater than \$1,000 that have a useful life of more than one year. Additions that do not meet these criteria are expensed when purchased. Repairs and maintenance are charged to expenses as incurred. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest in the amount of \$23,839 was capitalized for the year ended June 30, 2018. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following is a summary of useful lives:

Buildings	25 years
Equipment and vehicles	3 - 5 years
Leasehold improvements	3 - 10 years

Debt Issuance Costs

Costs incurred in connection with the issuance of the Corporation's bonds and notes payable have been capitalized and are being amortized using the straight-line method, which approximates the interest method, over the term of the loans. Unamortized debt issuance costs are presented as a direct deduction from the carrying amount of the related liability in the consolidated statements of financial position.

Donated Services and Materials

A substantial number of unpaid volunteers have made significant contributions of their time to the Corporation's programs and administrative activities. The value of this contributed time is not reflected in these consolidated financial statements since it is not susceptible to objective measurement or valuation. Donated materials are recorded at fair market value at the date of the gift.

Health and Related Services Revenue, Net

The Corporation has agreements with third-party payers that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Health and related services revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered. The Corporation participates in certain Medicaid programs.

TENNESSEE FAMILY SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Tax Status

The Corporation is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code; and accordingly, no provision for income tax is included in the accompanying financial statements. The Corporation is not classified as a private foundation.

The Corporation accounts for the effect of any uncertain tax positions based on a *more likely than not* threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a *cumulative probability assessment* that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Corporation include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the Corporation has determined that such tax positions do not result in an uncertainty requiring recognition.

Use of Estimates

Judgment and estimation are exercised by management in certain areas of the preparation of financial statements. The most significant estimates include the recovery period for buildings and equipment, the collectibility of receivables and the allocation of functional expenses. Management believes that such estimates have been based on reasonable assumptions and that such estimates are appropriate. Actual results could differ from those estimates.

Functional Expenses

Expenses have been allocated by function into program services and general and administrative activities benefited based on certain estimates made by management.

B. FUNDS HELD IN CUSTODY FOR RESIDENTS

The Corporation serves as custodian for social security, patient and supplemental security income received for certain residents and miscellaneous contributions. These funds are deposited into the agency fund cash account. As of June 30, 2018 and 2017, the Corporation was serving as custodian for \$102,232 and \$102,142, respectively, which represents the unexpended personal funds held for residents.

TENNESSEE FAMILY SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

C. PROPERTY, BUILDINGS, AND EQUIPMENT

Property, buildings, and equipment at June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,379,349	\$ 1,379,349
Buildings (including assets under capital lease of \$-0- and \$1,495,893 at June 30, 2018 and 2017, respectively)	14,584,260	10,825,782
Equipment and vehicles	913,765	851,332
Leasehold improvements	241,537	241,537
Construction in progress	<u>-</u>	<u>971,808</u>
Total property, buildings, and equipment	17,118,911	14,269,808
Less accumulated depreciation	<u>(4,239,859)</u>	<u>(3,717,070)</u>
	<u>\$ 12,879,052</u>	<u>\$ 10,552,738</u>

D. BONDS PAYABLE

During the year ended June 30, 2011, the Corporation used the proceeds from the sale of \$7,883,000 Health Facilities Revenue bonds, Series 2011A and \$2,000,000 Health Facilities Revenue bonds, Series 2011B to finance a portion of the acquisition of certain residential care facilities. These facilities were previously leased and have been purchased from 4-B Tennessee, LLC.

Bonds payable at June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Health Care Facilities Revenue Bonds, Series 2011A*	\$ 5,023,000	\$ 5,413,000
Health Care Facilities Revenue Bonds, Series 2011B**	<u>1,859,385</u>	<u>1,934,879</u>
	6,882,385	7,347,879
Less: unamortized debt issuance costs	<u>(238,013)</u>	<u>(256,856)</u>
Total bonds payable, net	<u>\$ 6,644,372</u>	<u>\$ 7,091,023</u>

*fixed rate of 5.82% at June 30, 2018

**fixed rate of 12% at June 30, 2018

TENNESSEE FAMILY SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

D. BONDS PAYABLE - Continued

Series 2011A

Variable interest (fixed rate through February 28, 2021), tax exempt Health Care Facilities Revenue Bonds, Series 2011A are dated February 17, 2011, and mature serially through March 1, 2031. The bonds were issued by the Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee (the “Metropolitan Board”). The Corporation has issued a note payable to the Metropolitan Board for the bonds pursuant to a Loan Agreement secured by the revenues and assets of the Corporation. The agreements require monthly principal installments of \$32,500 commencing on April 1, 2011 and due the 1st of each month thereafter. Interest on the bonds is due on the first business day of every month commencing April 1, 2011. Payments for the bonds are required to be deposited with the trustee for retirement of bond principal and interest.

Optional Redemption

The Series 2011A bonds are subject to optional redemption prior to maturity at the option of the Corporation, subject to the consent of the Metropolitan Board, in whole or in part prior to maturity on any interest rate adjustment date at a redemption price of 100% of the principal amount to be redeemed plus accrued interest thereon to the date of redemption, plus the sum of the present value of the difference between the interest due at date of redemption and what would have been due had the Corporation chose not to prepay.

Mandatory Redemption

The mandatory redemption amounts of the bonds are shown as principal reductions during the year of required redemption. The bonds will be redeemed at 100% of the principal amount, plus accrued interest to the redemption date.

The bonds are also subject to extraordinary mandatory redemption, in whole or in part, in the event of certain circumstances or determinations, which include a determination of taxability. The bonds, depending on the circumstances, would be redeemed at the redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date, plus the sum of the present value of the difference between the interest due at date of redemption and what would have been due had the Corporation chose not to prepay.

TENNESSEE FAMILY SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

D. BONDS PAYABLE - Continued

Series 2011B

Fixed interest, tax exempt Health Facilities Revenue Refunding Bonds, Series 2011B are dated February 17, 2011, and mature serially through December 5, 2030. The bonds were issued by the Metropolitan Board. The Corporation has issued a note payable to the Metropolitan Board for the bonds pursuant to a loan agreement secured by the revenues and assets of the Corporation. The agreements require quarterly principal and interest installments of \$72,266 commencing on March 5, 2016. Interest accrues at the rate of 12%.

Optional Redemption

Beginning January 1, 2021, the Series 2011B bonds are subject to optional redemption prior to maturity at the option of the Corporation, subject to the consent of the Metropolitan Bond, in whole or in part prior to maturity on any interest rate adjustment date at a redemption price equal to the following percentages of the principal amount to be redeemed plus accrued interest thereon to the date of redemption as follows:

<u>Redemption Date</u>	<u>Redemption Price</u>
During 2021	105%
During 2022	104%
During 2023	103%
During 2024	102%
During 2025	101%
Thereafter	Par

Mandatory Redemption

The mandatory redemption amounts of the bonds are shown as principal reductions during the year of required redemption. The bonds will be redeemed at 100% of the principal amount, plus accrued interest to the redemption date.

The bonds are also subject to extraordinary mandatory redemption, in whole or in part, in the event of certain circumstances or determinations, which include a determination of taxability. The bonds, depending on the circumstances, would be redeemed at redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date, plus the sum of the present value of the difference between the interest due at date of redemption and what would have been due had the Corporation chose not to prepay.

TENNESSEE FAMILY SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

D. BONDS PAYABLE - Continued

The loan agreements contain various financial covenants. The Corporation was in compliance with these covenants at June 30, 2018 or has obtained an appropriate waiver.

The maturities of bonds payable at June 30, 2018, are as follows:

Year Ending June 30,	Amount
2019	\$ 458,964
2020	467,620
2021	477,362
2022	488,327
2023	500,668
Thereafter	4,489,444
	6,882,385
Less: unamortized debt issuance costs	(238,013)
	\$ 6,644,372

E. NOTES PAYABLE

A summary of notes payable at June 30, 2018 and 2017 is as follows:

	2018	2017
<p>Note payable to financial institution due in monthly principal installments of \$5,660 beginning February 2018, plus interest at LIBOR plus 3.00%, maturing January 2022, secured by construction in progress. This note was paid in full in January 2018 from the proceeds of a note payable to a bank. The early extinguishment of debt resulted in a loss of \$25,589 for the year ended June 30, 2018, which represents the unamortized debt issuance costs.</p>	\$ -	\$ 275,366
<p>Note payable to financial institution due in monthly principal and interest installments of \$11,907 at 4.80%, maturing January 2025, secured by certain property.</p>	1,678,569	-

TENNESSEE FAMILY SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

E. NOTES PAYABLE - Continued

	2018	2017
Note payable to financial institution due in monthly principal installments of \$8,550, plus interest at the Prime Rate minus 4.00% but not less than 0.00% (1.00% at June 30, 2018), maturing March 2028, secured by certain properties.	1,928,873 <u>3,607,442</u>	- <u>275,366</u>
Less: unamortized debt issuance costs	(45,479)	(35,683)
Total notes payable, net	<u>\$ 3,561,963</u>	<u>\$ 239,683</u>

The future notes payable maturities at June 30, 2018, are as follows:

Year Ending June 30,	Amount
2019	\$ 155,224
2020	157,628
2021	160,581
2022	163,467
2023	166,496
Thereafter	<u>2,804,046</u>
	3,607,442
Less: unamortized debt issuance costs	(45,479)
Total	<u>\$ 3,561,963</u>

F. LINE-OF-CREDIT

At June 30, 2018 and 2017, the Corporation had a revolving line-of-credit with a financial institution of \$500,000 in order to meet working capital needs. The line-of-credit is secured by the assets of the Corporation. As of June 30, 2018 and 2017, there were no outstanding borrowings under the agreement.

TENNESSEE FAMILY SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

G. CAPITAL LEASE OBLIGATION

During fiscal 2012, the Corporation entered into a lease agreement to lease certain properties with a cost of \$1,495,893 from 4-B Properties, LLC, which is owned in part by an individual who also is a partial owner of Eidetik, Inc. (see Note L). The lease has been recorded in the accounts of the Corporation as a capital lease. The obligation was due in monthly installments of \$13,080 through April 2016, and \$9,350 from May 2016 through April 2031, including interest at a rate of 5.82%. In March 2018, the Corporation purchased these properties from 4-B Properties, LLC. The purchase was financed using a portion of the proceeds from the issuance of a note payable to a bank.

H. OPERATING LEASES

The Corporation leases certain facilities, equipment and vehicles under noncancelable operating leases. The leases expire at various dates through May 2021. Total rent expense was \$295,852 and \$392,235 for fiscal 2018 and 2017, respectively. Certain of these facilities are owned by an individual who is also a partial owner of Eidetik, Inc. (see Note L). Total rents paid under these agreements were \$86,400 and \$124,800 for fiscal 2018 and 2017, respectively.

A summary of the future minimum rental payments under the remaining operating leases at June 30, 2018, is as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2019	\$104,352
2020	16,049
2021	<u>6,399</u>
	<u>\$126,800</u>

I. SIGNIFICANT FUNDING SOURCES

Approximately 99% of the Corporation's total support and revenue was provided through Medicaid programs for the years ended June 30, 2018 and 2017.

TENNESSEE FAMILY SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

J. RETIREMENT PLAN

The Corporation maintains a defined contribution retirement plan covering substantially all of its employees. The Corporation may make discretionary contributions on the employee's behalf. Employees are vested immediately in benefits arising from their contributions. Benefits relating to contributions by the Corporation become fully vested after two years of participation. Contributions totaled \$17,278 and \$12,268 for the years ended June 30, 2018 and 2017, respectively.

K. ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising costs for the fiscal years ended June 30, 2018 and 2017 were \$31,639 and \$22,052, respectively.

L. MANAGEMENT AND CONSULTING CONTRACTS

The Corporation has a five-year service agreement with Eidetik, Inc. Under the terms of the contract, effective December 1, 2010, Eidetik, Inc. provides certain services including financial management, human resources and employee training, technology, and program quality evaluation. Base fees are \$10,000 per month plus 2.75% of monthly collections of revenue for ICF/MR beds.

M. CONCENTRATION OF CREDIT RISK

The Corporation maintains its cash and cash equivalents in financial institutions at balances, which, at times, may be uninsured or may exceed federally insured limits. The Corporation has not experienced any losses in such accounts. The Corporation believes it is not exposed to any significant risk of loss on cash and cash equivalents. The Corporation derives a majority of its revenues from the State of Tennessee under Medicaid programs. Credit risk extends to receivables, which are uncollateralized. Management does not believe there is any significant collection risk.

N. SUBSEQUENT EVENTS

The Corporation evaluated subsequent events through September 26, 2018, the issuance date of the Corporation's consolidated financial statements, and have determined that there are no subsequent events that require disclosure.



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

The Board of Directors
Tennessee Family Solutions, Inc.
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Tennessee Family Solutions, Inc., (a Tennessee not-for-profit corporation), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 26, 2018.

Internal Control Over Financial Reporting

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

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



To the Board of Directors of
Tennessee Family Solutions, Inc.

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

Compliance and Other Matters

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

Purpose of this Report

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

Crosslin, PLLC

Nashville, Tennessee
September 26, 2018