

REPORT ON AUDITED FINANCIAL STATEMENTS
TENNESSEE FAMILY SOLUTIONS, INC.
For The Fiscal Years Ended June 30, 2009 and 2008

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

REPORT OF INDEPENDENT AUDITORS

We have audited the accompanying statements of financial position of Tennessee Family Solutions, Inc. (a nonprofit organization) as of June 30, 2009 and 2008 and the related statements of activities, statements of functional expenses, and statements of cash flows for the fiscal 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting 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 the Tennessee Family Solutions, Inc. as of June 30, 2009 and 2008, 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.

NEEL CRAFTON & PHILLIPS LLP

Morganfield, Kentucky
September 30, 2009



Tennessee Family Solutions, Inc.
Statements of Financial Position
As of June 30, 2009 and 2008

Assets	2009	2008
Current assets		
Cash and cash equivalents	\$ 446,726	\$ 150,246
Accounts receivable, net	582,151	1,107,105
Prepaid expenses	50,860	44,325
Total current assets	1,079,737	1,301,676
Property, plant and equipment		
Equipment and vehicles	444,227	437,370
Less accumulated depreciation	(357,765)	(307,258)
Total property, plant and equipment	86,462	130,112
Total assets	\$ 1,166,199	\$ 1,431,788
Liabilities and net assets		
Liabilities		
Current liabilities		
Accounts payable	\$ 187,640	\$ 149,503
Current portion of long-term debt	481,223	707,059
Accrued payroll and taxes	362,449	354,178
Total current liabilities	1,031,312	1,210,740
Long-term debt, less current portion	93,765	765,760
Net assets		
Unrestricted (deficit)	41,122	(544,712)
Temporarily restricted	-	-
Permanently restricted	-	-
Total net assets	41,122	(544,712)
Total liabilities and net assets	\$ 1,166,199	\$ 1,431,788

The accompanying notes are an integral part of these statements.

Tennessee Family Solutions, Inc.
Statements of Activities
For the fiscal years ended June 30, 2009 and 2008

	2009	2008
Unrestricted support		
Health and related services	\$ 6,735,651	\$ 6,431,585
Unrestricted contributions	-	914
Other	17,866	12,840
Total unrestricted support	6,753,517	6,445,339
Expenses		
General and administrative	898,582	832,160
Program services	5,269,101	5,177,391
Total expenses	6,167,683	6,009,551
Increase in net assets	585,834	435,788
Unrestricted net deficit, beginning of year	(544,712)	(980,500)
Unrestricted net assets (deficit), end of year	\$ 41,122	\$ (544,712)
Temporarily restricted net assets	-	-
Permanently restricted net assets	-	-
Net assets (deficit), end of year	\$ 41,122	\$ (544,712)

The accompanying notes are an integral part of these statements.

Tennessee Family Solutions, Inc.
Schedule of Functional Expenses
For the fiscal year ended June 30, 2009

	General & Administrative	Program Services	Totals
Operating expenses			
Salaries and wages	\$ 219,619	\$ 3,280,278	\$ 3,499,897
Employee benefits and taxes	35,933	130,888	166,821
Advertising	20,742	-	20,742
Property leases	108,452	595,826	704,278
Property taxes and dues	23,911	69,993	93,904
Utilities	6,955	120,696	127,651
Food	2,822	135,852	138,674
Maintenance	17,908	110,587	128,495
Vehicle lease	11,717	5,950	17,667
Supplies	35,485	81,305	116,790
Travel	7,184	61,243	68,427
Professional services	43,735	418	44,153
Other operating expenses	15,513	-	15,513
Insurance	133,964	-	133,964
Administrative services	150,000	-	150,000
Foster care program	-	559,427	559,427
Communication	20,360	55,476	75,836
Total operating expenses	854,300	5,207,939	6,062,239
Other expenses			
Interest	32,858	3,493	36,351
Depreciation	11,424	57,669	69,093
Total other expenses	44,282	61,162	105,444
Total expenses	\$ 898,582	\$ 5,269,101	\$ 6,167,683

The accompanying notes are an integral part of these statements.

Tennessee Family Solutions, Inc.
Schedule of Functional Expenses
For the fiscal year ended June 30, 2008

	General & Administrative	Program Services	Totals
Operating expenses			
Salaries and wages	\$ 202,879	\$ 3,143,658	\$ 3,346,537
Employee benefits and taxes	21,748	158,669	180,417
Advertising	32,891	-	32,891
Property leases	109,608	595,825	705,433
Property taxes and dues	9,548	61,575	71,123
Utilities	6,506	110,628	117,134
Food	2,723	136,616	139,339
Maintenance	21,295	116,286	137,581
Vehicle lease	13,802	3,369	17,171
Supplies	34,603	50,567	85,170
Travel	5,104	68,811	73,915
Professional services	11,480	15,288	26,768
Other operating expenses	27,196	-	27,196
Insurance	95,248	-	95,248
Administrative services	134,942	-	134,942
Foster care program	-	592,695	592,695
Communication	27,664	50,476	78,140
Total operating expenses	757,237	5,104,463	5,861,700
Other expenses			
Interest	65,579	6,285	71,864
Depreciation	9,344	66,643	75,987
Total other expenses	74,923	72,928	147,851
Total expenses	\$ 832,160	\$ 5,177,391	\$ 6,009,551

The accompanying notes are an integral part of these statements.

Tennessee Family Solutions, Inc.
Statements of Cash Flows
For the fiscal years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Increase in net assets	\$ 585,834	\$ 435,788
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	69,093	75,987
Gain on sale of equipment	(2,983)	-
Changes in operating assets and liabilities		
Decrease (increase) in assets		
Accounts receivable	524,954	(596,349)
Prepaid expenses	(6,535)	(18,948)
Other assets	-	7,597
Increase (decrease) in liabilities		
Accounts payable	38,137	(391,429)
Accrued payroll and taxes	8,271	9,214
Net cash provided (used) by operating activities	1,216,771	(478,140)
Cash flows from investing activities		
Plant and equipment purchases	(25,442)	(33,941)
Proceeds from sale of equipment	2,983	-
Net cash used by investing activities	(22,459)	(33,941)
Cash flows from financing activities		
Proceeds from notes payable	15,095	760,048
Payments on notes payable	(912,927)	(470,251)
Net cash provided (used) by financing activities	(897,832)	289,797
Net increase (decrease) in cash and cash equivalents	296,480	(222,284)
Cash and cash equivalents, beginning of year	150,246	372,530
Cash and cash equivalents, end of year	\$ 446,726	\$ 150,246
Supplementary Information:		
Cash paid for interest	\$ 36,351	\$ 71,864

The accompanying notes are an integral part of these statements.

**Tennessee Family Solutions, Inc.
Notes to Financial Statements**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of Tennessee Family Solutions, Inc. (The Organization) are described below to enhance the usefulness of the financial statements to the reader.

A. Nature of Activities

Tennessee Family Solutions, Inc. is a nonprofit corporation organized on October 25, 1999. The Organization'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.

B. Financial Statement Presentation

The Organization maintains its accounting records on the accrual basis of accounting according to the standards of accounting and financial reporting for nonprofit organizations in conformity with accounting principles generally accepted in the United States of America.

C. Classes of Net Assets

In accordance with Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations," the Organization reports information regarding its financial position and activities according to three classes of net assets: 1) unrestricted net assets, 2) temporarily restricted net assets, and 3) permanently restricted net assets.

D. Cash and Cash Equivalents

The Organization considers cash equivalents to be all short-term, highly liquid investments that are readily convertible into cash within ninety (90) days of purchase. The Organization held deposits in excess of federal deposit insurance limits of approximately \$82 and \$9,910 as of June 30, 2009 and 2008, respectively.

E. Accounts Receivable

The Organization carries its accounts receivable 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.

F. Concentration of Risk

The Organization derives a majority of its revenues from the State of Tennessee under the Medicaid program. Management does not believe there is any significant collection risk.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

G. Contributions

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization 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, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Organization reports gifts of goods 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 Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

H. Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation is provided on the straight-line basis over the useful life of the asset. The Organization capitalizes asset additions greater than \$500 that have a useful life of more than one year. Additions that do not meet these criteria are expensed when purchased. The following is a summary of useful lives:

Equipment and furniture	5 years
Vehicles	5 years

I. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

J. Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain 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. Accordingly, actual results could differ from those estimates.

K. Advertising Costs

Advertising costs are expensed as incurred. Advertising costs for the fiscal years ended June 30, 2009 and 2008 were \$20,742 and \$32,891, respectively.

L. Income Taxes

The Organization is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code; therefore, no provision for federal income taxes has been made in the financial statements.

M. Donated Services and Materials

Contributions of services are recognized as revenue if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A substantial number of volunteers have made significant contributions via services. These amounts have not been recognized in the statement of activities due to the fact that they do not meet the criteria for recognition under SFAS No. 116.

Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

N. Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers.

Tennessee Family Solutions, Inc.
Notes to Financial Statements

2. LEASES PAYABLE

During the years ended June 30, 2009 and 2008, the Organization paid lease payments of \$704,278 and \$707,017, respectively, to 4-B Tennessee, LLC. Lease payments are calculated based on the monthly debt service and lease expense of 4-B Tennessee, LLC. As of June 30, 2009 and 2008, monthly lease payments for the units in service aggregated approximately \$58,690 and \$59,999, respectively.

3. PROPERTY, PLANT AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2009 and 2008:

	2009	2008
Equipment	\$ 28,009	\$ 28,009
Leasehold improvements	346,957	58,133
Vehicles	69,261	351,228
Totals	444,227	437,370
Accumulated depreciation	(357,765)	(307,258)
	\$ 86,462	\$ 130,112

Depreciation expense for the years ended June 30, 2009 and 2008 was \$69,093 and \$75,987.

4. ALLOWANCES FOR UNCOLLECTIBLE ACCOUNTS

Accounts receivable are net of an allowance for uncollectible accounts of \$0 and \$0 as of June 30, 2009, and 2008, respectively.

Tennessee Family Solutions, Inc.
Notes to Financial Statements

5. LONG TERM DEBT

Long-term debt at June 30, 2009 and 2008 consisted of the following:

	2009	2008
24 month note payable @ 0% interest from State of Tennessee, maturing September 2010.	\$ 436,236	\$ 798,277
60 month note payable @ 12% interest from Maricopa, LLC, unsecured, maturing January 1, 2011	28,608	481,497
36 month note payable @ 0% interest to 4B Tennessee, LLC, unsecured, maturing July 1, 2010	64,832	116,697
60 month note payable @ 6.8% from Daimler Chrysler due in monthly installments of \$337, maturing May 2011, secured by vehicle	7,242	10,662
48 month note payable @7.3% from United Community Bank due in monthly installments of \$415, maturing March 2010, secured by vehicle	3,619	8,151
48 month note payable @7.9% from United Community Bank due in monthly installments of \$421, maturing April 2010, secured by vehicle	6,868	10,823

Continued

Tennessee Family Solutions, Inc.
Notes to Financial Statements

5. LONG TERM DEBT, CONTINUED

	2009	2008
36 month note payable @7% from United Community Bank due in monthly installments of \$466, maturing October 2011, secured by vehicle	12,008	-
48 month note payable @ 8.4% from United Community Bank due in monthly installments of \$644, maturing February 2011, secured by vehicle	11,980	18,406
36 month note payable @ 8.4% from United Community Bank due in monthly installments of \$863, maturing June 2009, secured by vehicle	-	9,900
36 month note payable @ 8.4% from United Community Bank due in monthly installments of \$734, maturing November 2009, secured by vehicle	3,595	18,406
	<u>574,988</u>	<u>1,472,819</u>
Current portion of long-term debt	<u>(481,223)</u>	<u>(707,059)</u>
	<u>\$ 93,765</u>	<u>\$ 765,760</u>

Continued

Tennessee Family Solutions, Inc.
Notes to Financial Statements

5. LONG TERM DEBT, CONTINUED

Long-term debt at June 30, 2009 consisted of the following:

<u>Years Ended June 30,</u>	<u>Amount</u>
2010	\$ 481,223
2011	91,926
2012	1,839
2013	-
2014 and thereafter	-
<u>Totals</u>	<u>\$ 574,988</u>

6. LINE OF CREDIT

The Organization established a \$300,000 revolving demand line of credit with a bank on March 10, 2008 in order to meet capital project cash flow needs. As of June 30, 2009 and 2008, there have been no borrowings under this agreement.

7. MANAGEMENT AND CONSULTING CONTRACTS

The Organization has a five-year service agreement with Eidetik, Inc. Under the terms of the contract, effective December 1, 2005, Eidetik, Inc. provides certain services including financial management, human resources and employee training, technology, and program quality evaluation. Fees will be \$12,500 per month.

8. FUNCTIONAL EXPENSES

The Organization provides residential housing and support services to developmentally disabled persons. Expenses related to providing these services for fiscal years ended 2009 and 2008 are presented in the audited financial statements.

9. RECLASSIFICATIONS

Certain amounts from the previous year have been reclassified to conform to the presentation of the current year.