

**REPORT ON AUDITED FINANCIAL STATEMENTS**

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TENNESSEE FAMILY SOLUTIONS, INC.  
For The Years Ended June 30, 2008 and 2007

Neel, Crafton & Phillips, LLP  
*Certified Public Accountants  
Business Consultants*

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, 2008 and 2007 and the related statements of activities, statements of functional expenses, and statements of 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. 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

NEEL CRAFTON & PHILLIPS LLP

Morganfield, Kentucky  
August 28, 2008

# Statements of Financial Position

*Tennessee Family Solutions, Inc.*

*As of June 30, 2008 and 2007*

<b>Assets</b>	<b>2008</b>	<b>2007</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 150,246	\$ 372,530
Accounts receivables, net	1,107,105	510,756
Prepaid expenses	44,325	25,375
<b>Total current assets</b>	<b>1,301,676</b>	<b>908,661</b>
<b>Property, plant and equipment:</b>		
Equipment and vehicles	437,370	403,430
Less accumulated depreciation	(307,988)	(231,270)
<b>Total property, plant and equipment</b>	<b>129,382</b>	<b>172,160</b>
<b>Other assets</b>	<b>-</b>	<b>7,597</b>
<b>Total assets</b>	<b>\$ 1,431,058</b>	<b>\$ 1,088,418</b>
<b>Liabilities and net assets</b>		
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 199,932	\$ 591,361
Current portion of notes payable	656,630	363,434
Accrued payroll and taxes	354,178	344,964
<b>Total current liabilities</b>	<b>1,210,740</b>	<b>1,299,759</b>
Notes payable, less current portion	765,760	769,159
<b>Net assets</b>		
Unrestricted (deficit)	(545,442)	(980,500)
Temporarily restricted	-	-
Permanently restricted	-	-
<b>Total net assets</b>	<b>(545,442)</b>	<b>(980,500)</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,431,058</b>	<b>\$ 1,088,418</b>

*The accompanying notes are an integral part of these statements.*

# Statements of Activities

*Tennessee Family Solutions, Inc.*

*For the years ended June 30, 2008 and 2007*

	2008	2007
Unrestricted support:		
Health and related services	\$ 6,431,585	\$ 5,958,763
Unrestricted contributions	914	-
Other	12,840	17,038
<b>Total unrestricted support</b>	<b>6,445,339</b>	<b>5,975,801</b>
Expenses:		
General and administrative	832,890	1,010,828
Program services	5,177,391	5,067,710
<b>Total expenses</b>	<b>6,010,281</b>	<b>6,078,538</b>
Increase (decrease) in net assets	435,058	(102,737)
Unrestricted net assets (deficit), beginning of year	(980,500)	(877,763)
Unrestricted net assets (deficit), end of year	\$ (545,442)	\$ (980,500)
Temporarily restricted net assets	-	-
Permanently restricted net assets	-	-
Net assets (deficit), end of year	\$ (545,442)	\$ (980,500)

*The accompanying notes are an integral part of these statements.*

## Schedule of Functional Expenses

*Tennessee Family Solutions, Inc.*  
*For the year ended June 30, 2008*

	General & Administrative	Program Services	Totals
<b>Operating expenses:</b>			
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 expense	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
<b>Total operating expenses</b>	<b>757,237</b>	<b>5,104,463</b>	<b>5,861,700</b>
<b>Other expenses:</b>			
Interest	65,579	6,285	71,864
Depreciation	10,074	66,643	76,717
<b>Total other expenses</b>	<b>75,653</b>	<b>72,928</b>	<b>148,581</b>
<b>Total expenses</b>	<b>\$ 832,890</b>	<b>\$ 5,177,391</b>	<b>\$ 6,010,281</b>

*The accompanying notes are an integral part of these statements.*

## Schedule of Functional Expenses

*Tennessee Family Solutions, Inc.*

*For the year ended June 30, 2007*

	General & Administrative	Program Services	Totals
Operating expenses:			
Salaries and wages	\$ 243,967	\$ 3,025,399	\$ 3,269,366
Employee benefits and taxes	41,829	158,637	200,466
Advertising	8,983	-	8,983
Bad debt expense	35,638	63,901	99,539
Property leases	126,262	635,293	761,555
Property taxes and dues	5,230	59,189	64,419
Utilities	1,181	115,496	116,677
Food	3,203	123,424	126,627
Maintenance	2,659	65,593	68,252
Vehicle lease	13,412	14,488	27,900
Supplies	36,341	41,762	78,103
Travel	9,322	59,116	68,438
Professional services	73,852	26,356	100,208
Other operating expense	38,170	747	38,917
Insurance	98,656	-	98,656
Administrative services	128,948	-	128,948
Foster care program	-	565,042	565,042
Communication	29,847	47,260	77,107
<b>Total operating expenses</b>	<b>897,500</b>	<b>5,001,703</b>	<b>5,899,203</b>
Other expenses:			
Interest	105,674	7,821	113,495
Depreciation	7,654	58,186	65,840
<b>Total other expenses</b>	<b>113,328</b>	<b>66,007</b>	<b>179,335</b>
<b>Total expenses</b>	<b>\$ 1,010,828</b>	<b>\$ 5,067,710</b>	<b>\$ 6,078,538</b>

*The accompanying notes are an integral part of these statements.*

## Statements of Cash Flows

*Tennessee Family Solutions, Inc.*

*For the years ended June 30, 2008 and 2007*

	<i>2008</i>	<i>2007</i>
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets	\$ 435,058	\$ (102,737)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	76,717	65,840
Gain on sale of equipment	-	(4,817)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivables	(596,349)	96,266
Prepaid expenses	(18,948)	3,055
Other assets	7,597	(4,097)
Increase (decrease) in liabilities:		
Accounts payable	(391,429)	(25,199)
Accrued payroll and taxes	9,214	58,994
<b>Net cash provided by operating activities</b>	<b>(478,140)</b>	<b>87,305</b>
<b>Cash flows from investing activities</b>		
Plant and equipment purchases	(33,941)	(53,221)
Proceeds from sale of equipment	-	8,500
<b>Net cash used by investing activities</b>	<b>(33,941)</b>	<b>(44,721)</b>
<b>Cash flows from financing activities</b>		
Principal payments on line of credit	-	(272,000)
Proceeds from notes payable	760,048	370,888
Payments on notes payable	(470,251)	(235,543)
<b>Net cash used by financing activities</b>	<b>289,797</b>	<b>(136,655)</b>
Net decrease in cash and cash equivalents	(222,284)	(94,071)
Cash and cash equivalents, beginning of year	372,530	466,601
<b>Cash and cash equivalents, end of year</b>	<b>\$ 150,246</b>	<b>\$ 372,530</b>

*The accompanying notes are an integral part of these statements.*



# Notes to Financial Statements

Tennessee Family Solutions, Inc.

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## 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.

### *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 live and work within their own community.

### *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.

### *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.

### *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 \$9,910 and \$215,787 as of June 30, 2008, and 2007, respectively.

### *Method of Estimating Allowances for Uncollectible 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.

### *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.

# Notes to Financial Statements

Tennessee Family Solutions, Inc.

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SUMMARY OF  
SIGNIFICANT  
ACCOUNTING  
POLICIES,  
CONTINUED

### *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.

### *Property and Equipment*

Property 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

### *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.

# Notes to Financial Statements

Tennessee Family Solutions, Inc.

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## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### *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.

### *Advertising Costs*

Advertising Costs are expensed as incurred.

### *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

### *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.

### *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.

# Notes to Financial Statements

Tennessee Family Solutions, Inc.

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## LEASES PAYABLE

During the years ended June 30, 2008 and 2007, the Organization paid lease payments of \$707,017 and \$761,554, 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, 2008 and 2007, monthly lease payments for the units in service aggregated approximately \$59,999 and \$55,676, respectively.

## PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Equipment	\$ 28,009	\$ 26,391
Leasehold improvements	58,133	38,010
Vehicles	351,228	339,029
Totals	437,370	403,430
Accumulated depreciation	(307,988)	(231,270)
	<u>\$ 129,382</u>	<u>\$ 172,160</u>

Depreciation expense for the years ended June 30, 2008 and 2007 was \$76,717 and \$65,840.

## ALLOWANCES FOR UNCOLLECTIBLE ACCOUNTS

Accounts receivable are net of an allowance for uncollectible accounts of \$0 and \$26,848 as of June 30, 2008, and 2007, respectively.

# Notes to Financial Statements

Tennessee Family Solutions, Inc.

## LONG TERM DEBT

Long-term debt at June 30, 2008 and 2007 consisted of the following:

	2008	2007
24 month note payable @ 0% interest from State of Tennessee, maturing September 2010.	\$ 747,848	\$ -
60 month note payable @ 12% interest from Maricopa, LLC, unsecured, maturing January 1, 2011	481,497	652,034
36 month note payable @ 0% interest to Eidetik Inc, unsecured, maturing July 1, 2010	-	165,195
36 month note payable @ 0% interest to 4B Tennessee, LLC, unsecured, maturing July 1, 2010	116,697	155,597
Various notes payable with variable interest rates ranging from 8.4% to 12%, due in monthly installments, maturing in various years, secured by vehicles and assets of the Organization.	76,348	159,767
	<u>1,422,390</u>	<u>1,132,593</u>
Current portion of long-term debt	<u>(656,630)</u>	<u>(363,434)</u>
	<u>\$ 765,760</u>	<u>\$ 769,159</u>

# Notes to Financial Statements

Tennessee Family Solutions, Inc.

## LONG TERM DEBT

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

<u>Years Ended June 30,</u>	<u>Amount</u>
2009	\$ 656,630
2010	656,135
2011	109,625
2012	-
2013 and thereafter	-
<u>Totals</u>	<u>\$ 1,422,390</u>

## 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, 2008 and 2007, there have been no borrowings under this agreement.

## 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.

## FUNCTIONAL EXPENSES

The Organization provides residential housing and support services to developmentally disabled persons. Expenses related to providing these services for fiscal years ended 2008 and 2007 are presented in the audited financial statements.

## RECLASSIFICATIONS

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