TENNESSEE FAMILY SOLUTIONS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

TENNESSEE FAMILY SOLUTIONS, INC.

Table of Contents

Crosslin & Associates
Certified Public Accountants

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, 2013 and 2012, 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.

The Astoria • 3803 Bedford Avenue, Suite 103 • Nashville, Tennessee 37215 • phone: 615-320-5500 • fax: 615-329-9465 • www.crosslinpc.com
An Independent Member of The BDO Seidman Alliance

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, 2013 and 2012, and the changes in their net assets and their 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 27, 2013, on our consideration of Tennessee Family Solutions, Inc.'s internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tennessee Family Solutions, Inc.'s internal control over financial reporting and compliance.

Crosslin & Associates, P.C.

Nashville, Tennessee
September 27, 2013

TENNESSEE FAMILY SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2013	June 30, 2012
Cash and cash equivalents	$ 967,199	$ 1,040,497
Agency fund cash (Note B)	90,374	159,791
Accounts receivable	1,572,788	957,780
Other receivables	47,409	128,662
Prepaid expenses and other assets	77,077	74,918
Property, buildings, and equipment, net (Notes C and E)	10,741,876	11,194,142
Bond issue costs, net of amortization of $44,642 and $25,798 as of June 30, 2013 and 2012, respectively	332,231	351,075
Total assets	$ 13,828,954	$ 13,906,865

LIABILITIES AND NET ASSETS

	June 30, 2013	June 30, 2012
Accounts payable and accrued expenses	$ 205,656	$ 199,752
Funds held in custody for residents (Note B)	90,374	159,791
Accrued payroll and compensated absences	484,773	550,193
Notes payable (Note E)	192,585	269,097
Capital lease payable (Note G)	1,294,512	1,405,175
Bonds payable (Note D)	8,973,000	9,363,000
Total liabilities	11,240,900	11,947,008
Net Assets:		
Unrestricted	2,588,054	1,959,857
Total net assets	2,588,054	1,959,857
Total liabilities and net assets	$ 13,828,954	$ 13,906,865

See accompanying notes to consolidated financial statements.

TENNESSEE FAMILY SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES

	Unrestricted	
	Year Ended June 30,	
	2013	2012
Support:		
Contributions	$ 54,594	$ 27,463
Total support	54,594	27,463
Revenue:		
Health and related services, net	11,023,773	10,334,029
Other income	65,045	40,414
Total revenue	11,088,818	10,374,443
Total support and revenue	11,143,412	10,401,906
Expenses:		
Program services	9,018,389	8,419,077
General and administrative	1,496,826	1,301,157
Total expenses	10,515,215	9,720,234
Increase in net assets	628,197	681,672
Net assets at beginning of year	1,959,857	1,278,185
Net assets at end of year	$ 2,588,054	$ 1,959,857

See accompanying notes to consolidated financial statements.

TENNESSEE FAMILY SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2013 AND 2012

	2013		
	Program Services	General and Administrative	Total
Salaries	$ 5,469,703	$ 469,830	$ 5,939,533
Employee benefits and taxes	710,078	99,825	809,903
Total salaries and related expenses	6,179,781	569,655	6,749,436
Advertising	-	25,733	25,733
Property leases	30,547	69,324	99,871
Property taxes and dues	25,508	16,314	41,822
Utilities	175,604	12,460	188,064
Food	223,974	4,903	228,877
Maintenance	107,665	129,613	237,278
Equipment lease	55,310	13,457	68,767
Supplies	190,326	56,862	247,188
Travel	99,380	18,636	118,016
Professional services	64,448	140,690	205,138
ICF/MR tax	114,079	-	114,079
Other operating expenses	16,640	23,652	40,292
Insurance	-	194,455	194,455
Administrative services	17,998	191,465	209,463
Foster care program	341,899	-	341,899
Communication	87,607	17,971	105,578
Total other expenses	1,550,985	915,535	2,466,520
Total operating expenses before interest, depreciation, and amortization	7,730,766	1,485,190	9,215,956
Interest expense	724,587	3,399	727,986
Amortization expense	18,844	-	18,844
Depreciation expense	544,192	8,237	552,429
Total expenses per statement of operations and changes in net assets	$ 9,018,389	$ 1,496,826	$ 10,515,215

2012		
Program Services	General and Administrative	Total
$ 4,946,099	$ 404,476	$ 5,350,575
657,266	68,287	725,553
5,603,365	472,763	6,076,128
-	15,977	15,977
43,791	65,448	109,239
74,667	21,133	95,800
168,917	12,510	181,427
179,970	12,057	192,027
131,145	84,067	215,212
50,879	17,321	68,200
153,325	61,318	214,643
87,584	16,411	103,995
51,398	100,730	152,128
134,006	-	134,006
14,104	23,272	37,376
-	170,040	170,040
14,054	205,332	219,386
359,759	-	359,759
77,585	14,283	91,868
1,541,184	819,899	2,361,083
7,144,549	1,292,662	8,437,211
741,175	4,542	745,717
18,844	-	18,844
514,509	3,953	518,462
$ 8,419,077	$ 1,301,157	$ 9,720,234

See accompanying notes to consoldiated financial statements.

TENNESSEE FAMILY SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended June 30,	
	2013	2012
Cash flows from operating activities:		
Increase in net assets	$ 628,197	$ 681,672
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	571,273	537,306
Changes in operating assets and liabilitites :		
Receivables	(533,755)	(61,055)
Prepaid expenses and other assets	(2,159)	(9,648)
Accounts payable and accrued expenses	(59,516)	247,816
Net cash provided by operating activities	604,040	1,396,091
Cash flows from investing activities:		
Purchases of property, buildings and equipment	(100,163)	(276,961)
Net cash used in investing activities	(100,163)	(276,961)
Cash flows from financing activities:		
Proceeds from note payable	-	578,332
Principal payments on capital lease payable	(110,663)	(90,718)
Principal payments on notes payable	(76,512)	(428,877)
Principal payment on bonds payable	(390,000)	(390,000)
Net cash used in financing activities	(577,175)	(331,263)
Net change in cash and cash equivalents	(73,298)	787,867
Cash and cash equivalents at beginning of year	1,040,497	252,630
Cash and cash equivalents at end of year	$ 967,199	$ 1,040,497

Supplemental disclosure:

Cash paid for interest was $727,986 and $745,717 for 2013 and 2012, respectively.

During 2012, the Corporation entered into capital leases to acquire facilities totaling $1,495,893.

See accompanying notes to consolidated financial statements.

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 Tennessee Family Solutions, Inc., 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, 2013 and 2012.

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, 2013 and 2012.

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. 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

Bond Issue Costs

Bond issue costs are being amortized over the terms of the bond issues using the interest method.

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.

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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Fair Value Instruments

The carrying value of cash equivalents, receivables, accounts payable and accrued expenses approximates fair value because of the short maturity of these instruments. The carrying value of notes and bonds payable are not materially different from the estimated fair value of these instruments.

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, 2013 and 2012, the Corporation was serving as custodian for $90,374 and $159,791, respectively, which represents the unexpended personal funds held for residents.

C. PROPERTY, BUILDINGS, AND EQUIPMENT

Property, buildings, and equipment at June 30, 2013 and 2012, consisted of the following:

	2013	2012
Land	$ 1,065,549	$ 1,065,549
Buildings (including assets under capital lease of $1,495,893 at June 30, 2013 and 2012)	10,314,964	10,246,935
Equipment and vehicles	795,619	776,628
Leasehold improvements	214,741	201,598
Total property, buildings, and equipment	12,390,873	12,290,710
Less accumulated depreciation	(1,648,997)	(1,096,568)
	$ 10,741,876	$ 11,194,142

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, 2013 and 2012, consisted of the following:

	2013	2012
Health Care Facilities Revenue Bonds, Series 2011A*	$6,973,000	$7,363,000
Health Care Facilities Revenue Bonds, Series 2011B**	2,000,000	2,000,000
Total	$8,973,000	$9,363,000

*variable rate of 5.82% at June 30, 2013
**fixed rate of 12% at June 30, 2013

Series 2011A

Variable interest, 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.

D. BONDS PAYABLE - Continued

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.

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:

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

D. BONDS PAYABLE - Continued

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.

The loan agreements contain various financial covenants. The Corporation was in compliance with these covenants at June 30, 2013 or has obtained appropriate waiver.

The maturities of bonds payable at June 30, 2013, are as follows:

Year Ending June 30,	Amount
2014	$ 390,000
2015	390,000
2016	414,900
2017	444,441
2018	451,274
Thereafter	6,882,385
	$8,973,000

E. NOTES PAYABLE

A summary of notes payable at June 30, 2013 and 2012 follows:

	2013	2012
Note payable to financial institution due in monthly principal and interest installments of $744 at 7.55%, maturing February 2015, secured by vehicle.	$13,264	$20,858
Note payable to financial institution due in monthly principal and interest installments of $763 at 7.55%, maturing July 2015, secured by vehicle.	17,516	25,047
Note payable to financial institution due in monthly principal and interest installments of $807 at 5.75%, maturing April 2016, secured by vehicle.	23,623	31,672
Note payable to financial institution due in monthly principal and interest installments of $562 at 6.69%, maturing September 2013, secured by vehicle.	1,116	7,555
Note payable to financial institution due in monthly principal and interest installments of $851 at 6.56%, maturing October 2016, secured by vehicle.	29,679	38,246
Note payable to financial institution due in monthly principal and interest installments of $856 at 6.5%, maturing August 2016, secured by vehicle.	28,492	37,218

E. NOTES PAYABLE - Continued

	2013	2012
Note payable to financial institution due in monthly principal and interest installments of $716 at 4.5%, maturing May 2015, secured by vehicle.	$ 15,746	$ 23,437
Note payable to financial institution due in monthly principal and interest installments of $617 at 5.25%, maturing February 2016, secured by vehicle.	18,812	24,636
Note payable to financial institution due in monthly principal and interest installments of $263 at 5.95%, maturing March 2015, secured by vehicle.	5,232	7,987
Note payable to financial institution due in monthly principal and interest installments of $480 at 5.5%, maturing March 2016, secured by vehicle.	14,677	19,488
Note payable to financial institution due in monthly principal and interest installments of $299 at 5.75%, maturing January 2016, secured by vehicle.	8,607	11,610
Note payable to financial institution due in monthly principal and interest installments of $550 at 5.75%, maturing January 2016, secured by vehicle.	15,821	21,343
Total notes payable	$192,585	$269,097

E. NOTES PAYABLE - Continued

The future notes payable maturities at June 30, 2013, are as follows:

2014	$ 81,452
2015	75,893
2016 and thereafter	35,240
	$192,585

F. LINE-OF-CREDIT

At June 30, 2013 and 2012, 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, 2013 and 2012, there were no outstanding borrowings under the agreement.

G. CAPITAL LEASE PAYABLE

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 is 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%.

Minimum lease commitments at June 30, 2013 under the above mentioned capital lease are as follows:

Year Ending June 30,	Amount
2014	$ 156,960
2015	156,960
2016	149,501
2017	112,209
2018	112,209
Thereafter	1,440,011
	2,127,850
Allowance for net present value	(833,338)
Present value of net minimum lease commitments	$ 1,294,512

H. OPERATING LEASES

The Corporation leases certain facilities, equipment and vehicles under noncancelable operating leases. The leases expire at various dates through December 2015. Total rent expense was $168,638 and $177,439 for fiscal 2013 and 2012, respectively.

A summary of the future minimum rental payments under the remaining operating leases at June 30, 2013, is as follows:

Year Ending June 30,	Amount
2014	$ 92,428
2015	17,261
2016	2,720
	$112,409

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, 2013 and 2012.

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 $8,748 and $6,674 for the years ended June 30, 2013 and 2012, respectively.

K. ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising costs for the fiscal years ended June 30, 2013 and 2012 were $25,773 and $15,977, 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 $12,500 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 27, 2013, the issuance date of the Corporation's consolidated financial statements, and have determined that there are no subsequent events that require disclosure.

CROSSLIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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, 2013, 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 27, 2013.

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.

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 & Associates, P.C.

Nashville, Tennessee
September 27, 2013