TENNESSEE FAMILY SOLUTIONS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

TENNESSEE FAMILY SOLUTIONS, INC.

Table of Contents

CROSSLIN &ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

We have audited the accompanying consolidated statements of financial position of Tennessee Family Solutions, Inc. (a Tennessee nonprofit corporation) as of June 30, 2012 and 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, 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, 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* and should be considered in assessing the results of our audit.

Crosslin & Associates, P.C.

Nashville, Tennessee
September 27, 2012

2525 West End Avenue, Suite 1100 • Nashville, Tennessee 37203 • phone: 615-320-5500 • fax: 615-329-9465 • www.crosslinpc.com
An Independent Member of The BDO Seidman Alliance

TENNESSEE FAMILY SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2012		June 30, 2011	
Cash and cash equivalents	$	1,040,497	$	252,630
Agency fund cash (Note B)		159,791		78,193
Accounts receivable, no allowance considered necessary		957,780		984,926
Other receivables		128,662		40,461
Prepaid expenses and other assets		74,918		65,270
Property, buildings, and equipment, net (Notes C, D, E and G)		11,194,142		9,939,750
Bond issue costs, net of amortization of $25,798 and $6,954 as of June 30, 2012 and 2011, respectively		351,075		369,919
Total assets	$	13,906,865	$	11,731,149

LIABILITIES AND NET ASSETS

	June 30, 2012		June 30, 2011	
Liabilities:				
Accounts payable and accrued expenses	$	199,752	$	147,608
Funds held in custody for residents (Note B)		159,791		78,193
Accrued payroll and compensated absences		550,193		354,521
Notes payable (Note E)		269,097		119,642
Capital lease obligation (Note G)		1,405,175		-
Bonds payable (Note D)		9,363,000		9,753,000
Total liabilities		11,947,008		10,452,964
Net Assets:				
Unrestricted		1,959,857		1,278,185
Total net assets		1,959,857		1,278,185
Total liabilities and net assets	$	13,906,865	$	11,731,149

See accompanying notes to consolidated financial statements.

TENNESSEE FAMILY SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES

	Unrestricted	
	Year Ended June 30,	
	2012	2011
Support:		
Contributions	$ 27,463	$ 12,616
Total support	27,463	12,616
Revenue:		
Health and related services, net	10,334,029	8,551,066
Other income	40,414	18,297
Total revenue	10,374,443	8,569,363
Total support and revenue	10,401,906	8,581,979
Expenses:		
Program services	8,419,077	6,715,387
General and administrative	1,301,157	1,136,229
Total expenses	9,720,234	7,851,616
Increase in net assets	681,672	730,363
Net assets at beginning of year	1,278,185	547,822
Net assets at end of year	$ 1,959,857	$ 1,278,185

See accompanying notes to consolidated financial statements.

TENNESSEE FAMILY SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011

	2012		
	Program Services	General and Administrative	Total
Salaries	$ 4,946,099	$ 404,476	$ 5,350,575
Employee benefits and taxes	657,266	68,287	725,553
Total salaries and related expenses	5,603,365	472,763	6,076,128
Advertising	-	15,977	15,977
Property leases	43,791	65,448	109,239
Property taxes and dues	74,667	21,133	95,800
Utilities	168,917	12,510	181,427
Food	179,970	12,057	192,027
Maintenance	131,145	84,067	215,212
Equipment lease	50,879	17,321	68,200
Supplies	153,325	61,318	214,643
Travel	87,584	16,411	103,995
Professional services	51,398	100,730	152,128
ICF/MR tax	134,006	-	134,006
Other operating expenses	14,104	23,272	37,376
Insurance	-	170,040	170,040
Administrative services	14,054	205,332	219,386
Foster care program	359,759	-	359,759
Communication	77,585	14,283	91,868
Total other expenses	1,541,184	819,899	2,361,083
Total operating expenses before interest, depreciation, and amortization	7,144,549	1,292,662	8,437,211
Interest	741,175	4,542	745,717
Amortization	18,844	-	18,844
Depreciation	514,509	3,953	518,462
Total expenses per consolidated statements of activities	$ 8,419,077	$ 1,301,157	$ 9,720,234

2011		
Program Services	General and Administrative	Total
$ 3,881,815	$ 279,028	$ 4,160,843
493,841	40,933	534,774
4,375,656	319,961	4,695,617
-	11,329	11,329
451,258	204,663	655,921
68,430	18,283	86,713
151,063	11,620	162,683
148,910	2,853	151,763
125,344	69,105	194,449
40,961	7,826	48,787
127,557	34,234	161,791
75,379	12,988	88,367
28,428	72,335	100,763
62,223	-	62,223
-	16,564	16,564
-	143,215	143,215
-	182,784	182,784
534,365	-	534,365
61,080	22,443	83,523
1,874,998	810,242	2,685,240
6,250,654	1,130,203	7,380,857
265,519	886	266,405
6,954	-	6,954
192,260	5,140	197,400
$ 6,715,387	$ 1,136,229	$ 7,851,616

See accompanying notes to consolidated financial statements.

TENNESSEE FAMILY SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended June 30, 2012	Year ended June 30, 2011
Cash flows from operating activities:		
Increase in net assets	$ 681,672	$ 730,363
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Items not requiring cash:		
Depreciation and amortization	537,306	204,354
Changes in:		
Receivables	(61,055)	(391,367)
Prepaid expenses and other assets	(9,648)	3,708
Accounts payable and accrued expenses	247,816	54,477
Net cash provided by operating activities	1,396,091	601,535
Cash flows from investing activities:		
Purchases of property, buildings and equipment	(276,961)	(10,007,319)
Net cash used in investing activities	(276,961)	(10,007,319)
Cash flows from financing activities:		
Proceeds from bond issuance	-	9,883,000
Proceeds from note payable	578,332	546,591
Bond issue costs	-	(376,873)
Principal payments on capital lease obligation	(90,718)	-
Principal payments on notes payable	(428,877)	(583,106)
Principal payments on bonds payable	(390,000)	(130,000)
Net cash (used in) provided by investing activities	(331,263)	9,339,612
Net change in cash and cash equivalents	787,867	(66,172)
Cash and cash equivalents at beginning of year	252,630	318,802
Cash and cash equivalents at end of year	$ 1,040,497	$ 252,630

Supplemental disclosure:

Cash paid for interest was $745,717 and $266,405 for fiscal 2012 and 2011, respectively.

During fiscal 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 principles and practices followed by Tennessee Family Solutions, Inc., are presented below to assist the reader in evaluating the 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, 2012 and 2011.

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.

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, 2012 and 2011.

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 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, 2012 and 2011, the Corporation was serving as custodian for $159,791 and $78,193, respectively, which represents the unexpended personal funds held for residents.

C. PROPERTY, BUILDINGS, AND EQUIPMENT

Property, buildings, and equipment at June 30, 2012 and 2011, consisted of the following:

	2012	2011
Land	$ 1,065,549	$ 1,065,549
Buildings (including assets under capital lease at June 30, 2012 of $1,495,893)	10,246,935	8,751,041
Equipment and vehicles	776,628	505,568
Leasehold improvements	201,598	195,698
Total property, buildings, and equipment	12,290,710	10,517,856
Less accumulated depreciation	(1,096,568)	(578,106)
	$ 11,194,142	$ 9,939,750

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 (See Note H).

Bonds payable at June 30, 2012 and 2011, consisted of the following:

	2012	2011
Health Care Facilities Revenue Bonds, Series 2011A*	$7,363,000	$7,753,000
Health Care Facilities Revenue Bonds, Series 2011B**	2,000,000	2,000,000
Total	$9,363,000	$9,753,000

*variable rate - 5.82% at June 30, 2012
**fixed rate of 12% at June 30, 2012

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 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 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 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, 2012 or has requested appropriate waiver which management anticipates will be granted.

The maturities of bonds payable at June 30, 2012, are as follows:

Year Ending June 30,	Amount
2013	$ 390,000
2014	390,000
2015	390,000
2016	414,900
2017	444,441
Thereafter	7,333,659
	$9,363,000

E. NOTES PAYABLE

A summary of notes payable at June 30, 2012 and 2011 follows:

	2012	2011
Note payable to private company, unsecured, matured July 2011. This note is a non-interest bearing instrument.	$ -	$ 4,372
Note payable to financial institution due in monthly principal and interest installments of $446 at 7%, matured October 2011, secured by vehicle.	-	1,882
Note payable to financial institution due in monthly principal and interest installments of $744 at 7.55%, maturing January 2015, secured by vehicle.	20,858	27,889
Note payable to financial institution due in monthly principal and interest installments of $763 at 7.55%, maturing July 2015, secured by vehicle.	25,047	32,035
Note payable to financial institution due in monthly principal and interest installments of $807 at 5.75%, maturing April 2016, secured by vehicle.	31,672	39,886
Note payable to financial institution due in monthly principal and interest installments of $562 at 6.69%, maturing September 2013, secured by vehicle.	7,555	13,578
Note payable to financial institution due in monthly principal and interest installments of $851 at 6.5%, maturing October 2016, secured by vehicle.	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.	37,218	-

E. NOTES PAYABLE - Continued

A summary of notes payable at June 30, 2012 and 2011 follows (Continued):

	2012	2011
Note payable to financial institution due in monthly principal and interest installments of $716 at 4.5%, maturing May 2015, secured by vehicle.	$ 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.	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.	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.	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.	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.	21,343	-
Total notes payable	$269,097	$119,642

E. NOTES PAYABLE - Continued

The future notes payable maturities at June 30, 2012, are as follows:

2013	$ 85,128
2014	81,452
2015	74,615
2016	27,902
	$269,097

F. LINE-OF-CREDIT

At June 30, 2012 and 2011, 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 at June 30, 2012, is secured by the assets of the Corporation. As of June 30, 2012 and 2011, there were no outstanding borrowings under the agreement.

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 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, 2012 under the above mentioned capital leases are as follows:

Year Ending June 30,	Amount
2013	$ 156,960
2014	156,960
2015	156,960
2016	149,501
2017	112,209
Thereafter	1,552,220
	2,284,810
Allowance for net present value	(879,635)
Present value of net minimum lease commitments	$ 1,405,175

H. OPERATING LEASES

The Corporation leases certain facilities, equipment and vehicles under noncancelable operating leases. The leases expire at various dates through August 2014. Total rent expense was $177,439 and $704,708 for fiscal 2012 and 2011, respectively.

A summary of the future minimum rental payments under the remaining operating leases at June 30, 2012, is as follows:

Year Ending June 30,	Amount
2013	$122,492
2014	67,933
2015	720
	$191,145

During fiscal 2011, the Corporation leased certain of its facilities from 4-B Tennessee, LLC which is owned in part by an individual who also is a partial owner of Eidetik, Inc. (See Note L). Such leases are included above in total rent expense. Total rent expense under the 4-B Tennessee, LLC leases totaled $451,257 for the year ended June 30, 2011. These facilities were purchased from 4-B Tennessee, LLC during fiscal 2011 by the Corporation (See Note D).

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, 2012 and 2011.

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 $6,674 and $4,903 for the years ended June 30, 2012 and 2011, respectively.

K. ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising costs for the fiscal years ended June 30, 2012 and 2011 were $15,977 and $11,329, 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 gross revenue of 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, 2012, 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 AUDITORS' 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*

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

We have audited the financial statements of Tennessee Family Solutions, Inc., (a Tennessee nonprofit Corporation), as of and for the year ended June 30, 2012, and have issued our report thereon dated September 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, Board of Directors and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin & Associates, P.C.

Nashville, Tennessee
September 27, 2012