

**REPORT ON AUDITED FINANCIAL STATEMENTS**  
**TENNESSEE FAMILY SOLUTIONS, INC.**  
**For The Fiscal Years Ended June 30, 2010 and 2009**

**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 statement of financial position of Tennessee Family Solutions, Inc. (a nonprofit organization) as of June 30, 2010 and 2009 and the related statement of activities, statement of functional expenses, and statement 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, 2010 and 2009, 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.

*NCP*

Morganfield, Kentucky  
September 30, 2010



**Tennessee Family Solutions, Inc.**  
**Statement of Financial Position**  
**As of June 30, 2010 and 2009**

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Current assets		
Cash and cash equivalents	\$ 363,816	\$ 446,726
Accounts receivable, net	634,020	582,151
Prepaid expenses	68,978	50,860
<b>Total current assets</b>	<b>1,066,814</b>	<b>1,079,737</b>
Property, plant and equipment		
Equipment and vehicles	416,154	374,966
Leasehold improvements	121,282	69,261
Less accumulated depreciation	(407,605)	(357,765)
<b>Total property, plant and equipment</b>	<b>129,831</b>	<b>86,462</b>
<b>Total assets</b>	<b>\$ 1,196,645</b>	<b>\$ 1,166,199</b>
<b>Liabilities and net assets</b>		
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 204,188	\$ 187,640
Current portion of long-term debt	123,272	481,223
Accrued payroll and taxes	288,478	362,449
<b>Total current liabilities</b>	<b>615,938</b>	<b>1,031,312</b>
Long-term debt, less current portion	32,885	93,765
<b>Net assets</b>		
Unrestricted	547,822	41,122
Temporarily restricted	-	-
Permanently restricted	-	-
<b>Total net assets</b>	<b>547,822</b>	<b>41,122</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,196,645</b>	<b>\$ 1,166,199</b>

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

Tennessee Family Solutions, Inc.  
Statement of Activities  
For the fiscal years ended June 30, 2010 and 2009

	2010	2009
Unrestricted support		
Health and related services	\$ 6,950,473	\$ 6,735,651
Unrestricted contributions	-	-
Other	31,398	17,866
<b>Total unrestricted support</b>	<b>6,981,871</b>	<b>6,753,517</b>
Expenses		
General and administrative	907,335	898,582
Program services	5,567,836	5,269,101
<b>Total expenses</b>	<b>6,475,171</b>	<b>6,167,683</b>
Increase in net assets	506,700	585,834
Unrestricted net deficit, beginning of year	41,122	(544,712)
Unrestricted net assets, end of year	\$ 547,822	\$ 41,122
Temporarily restricted net assets	-	-
Permanently restricted net assets	-	-
<b>Net assets, end of year</b>	<b>\$ 547,822</b>	<b>\$ 41,122</b>

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, 2010**

	General & Administrative	Program Services	Totals
<b>Operating expenses</b>			
Salaries and wages	\$ 258,084	\$ 3,473,566	\$ 3,731,650
Employee benefits and taxes	32,034	148,275	180,309
Advertising	17,978	-	17,978
Property leases	124,392	631,699	756,091
Property taxes and dues	5,918	100,148	106,066
Utilities	8,441	117,750	126,191
Food	2,642	134,203	136,845
Maintenance	17,678	163,684	181,362
Equipment lease	13,494	10,761	24,255
Supplies	31,158	82,062	113,220
Travel	6,738	59,890	66,628
Professional services	57,021	1,295	58,316
Other operating expenses	15,122	-	15,122
Insurance	129,883	-	129,883
Administrative services	154,116	-	154,116
Foster care program	-	537,946	537,946
Communication	22,814	62,617	85,431
<b>Total operating expenses</b>	<b>897,513</b>	<b>5,523,896</b>	<b>6,421,409</b>
<b>Other expenses</b>			
Interest	1,510	2,413	3,923
Depreciation	8,312	41,527	49,839
<b>Total other expenses</b>	<b>9,822</b>	<b>43,940</b>	<b>53,762</b>
<b>Total expenses</b>	<b>\$ 907,335</b>	<b>\$ 5,567,836</b>	<b>\$ 6,475,171</b>

*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
<b>Operating expenses</b>			
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
Equipment 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
<b>Total operating expenses</b>	<b>854,300</b>	<b>5,207,939</b>	<b>6,062,239</b>
<b>Other expenses</b>			
Interest	32,858	3,493	36,351
Depreciation	11,424	57,669	69,093
<b>Total other expenses</b>	<b>44,282</b>	<b>61,162</b>	<b>105,444</b>
<b>Total expenses</b>	<b>\$ 898,582</b>	<b>\$ 5,269,101</b>	<b>\$ 6,167,683</b>

The accompanying notes are an integral part of these statements.

Tennessee Family Solutions, Inc.  
**Statement of Cash Flow**  
For the fiscal years ended June 30, 2010 and 2009

	2010	2009
<b>Cash flow from operating activities</b>		
Increase in net assets	\$ 506,700	\$ 585,834
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	49,839	69,093
Gain on sale of equipment	-	(2,983)
Changes in operating assets and liabilities		
Decrease (increase) in assets		
Accounts receivable	(51,869)	524,954
Prepaid expenses	(18,118)	(6,535)
Increase (decrease) in liabilities		
Accounts payable	16,548	38,137
Accrued payroll and taxes	(73,971)	8,271
<b>Net cash provided by operating activities</b>	<b>429,129</b>	<b>1,216,771</b>
<b>Cash flow from investing activities</b>		
Plant and equipment purchases	(93,209)	(25,442)
Proceeds from sale of equipment	-	2,983
<b>Net cash used by investing activities</b>	<b>(93,209)</b>	<b>(22,459)</b>
<b>Cash flow from financing activities</b>		
Proceeds from notes payable	173,854	15,095
Payments on notes payable	(592,684)	(912,927)
<b>Net cash used by financing activities</b>	<b>(418,830)</b>	<b>(897,832)</b>
Net increase (decrease) in cash and cash equivalents	(82,910)	296,480
Cash and cash equivalents, beginning of year	446,726	150,246
<b>Cash and cash equivalents, end of year</b>	<b>\$ 363,816</b>	<b>\$ 446,726</b>
<b>Supplementary Information:</b>		
Cash paid for interest	\$ 3,923	\$ 36,351

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 \$0 and \$82 as of June 30, 2010 and 2009, respectively.

***E. Accounts Receivable***

The Organization carries the 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 \$1,000 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 vehicles	5 years
Leasehold improvements	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.

Tennessee Family Solutions, Inc.  
Notes to Financial Statements

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, 2010 and 2009 were \$17,978 and \$20,742, 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.

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Tennessee Family Solutions, Inc.  
Notes to Financial Statements

**2. LEASES PAYABLE**

During the years ended June 30, 2010 and 2009, the Organization paid lease payments of \$677,548 and \$704,278, 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, 2010 and 2009, monthly lease payments for the units in service aggregated approximately \$50,590 and \$58,690, respectively.

**3. PROPERTY, PLANT AND EQUIPMENT**

Property and equipment consisted of the following as of June 30, 2010 and 2009:

	2010	2009
Equipment	\$ 28,009	\$ 28,009
Leasehold improvements	388,145	346,957
Vehicles	121,282	69,261
Totals	537,436	444,227
Accumulated depreciation	(407,605)	(357,765)
	\$ 129,831	\$ 86,462

Depreciation expense for the years ended June 30, 2010 and 2009 was \$49,839 and \$69,093, respectively.

**4. ALLOWANCES FOR UNCOLLECTIBLE ACCOUNTS**

Accounts receivable are net of an allowance for uncollectible accounts of \$0 and \$0 as of June 30, 2010, and 2009, respectively.

Continued

Tennessee Family Solutions, Inc.  
Notes to Financial Statements

5. LONG TERM DEBT

Long-term debt at June 30, 2010 and 2009 consisted of the following:

	2010	2009
24 month note payable @ 0% interest from State of Tennessee, maturing September 2010	\$ 62,304	\$ 436,236
60 month note payable @ 12% interest from Maricopa, LLC, unsecured, maturing January 1, 2011	-	28,608
36 month note payable @ 0% interest to 4B Tennessee, LLC, unsecured, maturing July 1, 2010	43,724	64,832
60 month note payable @ 6.8% from Daimler Chrysler due in monthly installments of \$337, maturing May 2011, secured by vehicle	3,580	7,242
48 month note payable @7.3% from United Community Bank due in monthly installments of \$415, maturing March 2010, secured by vehicle	-	3,619
48 month note payable @7.9% from United Community Bank due in monthly installments of \$421, maturing April 2010, secured by vehicle	-	6,868

Continued

Tennessee Family Solutions, Inc.  
Notes to Financial Statements

5. LONG TERM DEBT, CONTINUED

	2010	2009
36 month note payable @7% from United Community Bank due in monthly installments of \$466, maturing October 2011, secured by vehicle	7,145	12,008
48 month note payable @ 8.4% from United Community Bank due in monthly installments of \$644, maturing February 2011, secured by vehicle	4,993	11,980
60 month note payable @ 7.55% from Pinnacle National Bank due in monthly installments of \$744, maturing January 2015, secured by vehicle	34,411	-
36 month note payable @ 8.4% from United Community Bank due in monthly installments of \$734, maturing November 2009, secured by vehicle	-	3,595
	156,157	574,988
Current portion of long-term debt	(123,272)	(481,223)
	\$ 32,885	\$ 93,765

Continued

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

**5. LONG TERM DEBT, CONTINUED**

Long-term debt at June 30, 2010 consisted of the following:

Years Ended June 30,	Amount
2011	\$ 123,272
2012	12,080
2013	7,609
2014	8,206
2015 and thereafter	4,990
<b>Totals</b>	<b>\$ 156,157</b>

**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 operating and capital project cash flow needs. The line of credit is secured by the assets of the Organization. As of June 30, 2010 and 2009, the borrowings under this agreement were \$106,045 and \$0, respectively.

**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. Base fees will be \$12,500 per month plus 2.75% of monthly gross revenue of ICF/MR beds.

**8. CONCENTRATION OF CREDIT RISKS**

The percentage of revenue received from third-party payers at December 31 was as follows:

	2010	2009
Medicaid	95%	95%

**9. DEFINED CONTRIBUTION PENSION PLAN**

Effective December 1, 2009, the Organization established a defined contribution pension plan that cover all employees which meet the age and length of service criteria. Employer contributions to the plan for fiscal years ended 2010 and 2009 were \$2,526 and \$0, respectively.

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

**10. FUNCTIONAL EXPENSES**

The Organization provides residential housing and support services to developmentally disabled persons. Expenses related to providing these services for fiscal years ended 2010 and 2009 are presented in the audited financial statements.

**11. RECLASSIFICATIONS**

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

**12. SUBSEQUENT EVENTS**

Subsequent events related to the Organization have been evaluated through September 30, 2010. There was nothing of significance requiring disclosure.