

**FORTWOOD CENTER, INC**

**Chattanooga , Tennessee**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**Year Ended June 30, 2012**

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## INDEPENDENT AUDITORS' REPORT

### To the Board of Directors of Fortwood Center, Inc.:

We have audited the accompanying statement of financial position of Fortwood Center, Inc. (a nonprofit organization) as of June 30, 2012, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Fortwood Center, Inc., as of June 30, 2012, and the changes in its net assets and its cash flows for the year 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 December 28, 2012, on our consideration of Fortwood Center, Inc.'s internal control over financial reporting and on our tests of its 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of program and supporting services activities is presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by the State of Tennessee Division of Audit, and are a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

*Johnson, Wiley & Meacham, P.C.*

Chattanooga, Tennessee  
December 28, 2012

**FORTWOOD CENTER, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2012**

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$ 1,196,015
Unconditional promises to give	85,679
Grants receivable	175,929
Other receivables, net of allowance for doubtful accounts of \$10,400	500,694
Prepaid expenses	<u>52,863</u>

Total current assets 2,011,180

**PROPERTY AND EQUIPMENT, net** 2,973,458

\$ 4,984,638

(The accompanying notes are an integral part of these financial statements.)

## LIABILITIES AND NET ASSETS

### **CURRENT LIABILITIES:**

Current maturities of note payable	\$ 60,940
Accounts payable	13,429
Accrued payroll	32,724
Accrued compensated absences	71,018
Other accrued expenses	<u>5,259</u>

Total current liabilities 183,370

**NOTE PAYABLE**, less current maturities shown above 28,294

Total liabilities 211,664

### **NET ASSETS:**

Unrestricted	4,096,960
Temporarily restricted	296,014
Permanently restricted	<u>380,000</u>

4,772,974

\$ 4,984,638

(The accompanying notes are an integral part of these financial statements.)

**FORTWOOD CENTER, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:**

Federal grants	\$ 184,495
State of Tennessee grants	753,769
Local government grants	105,000
Program revenue, net -	
TennCare Capitated	454,664
TennCare Fee for Service	1,015,591
TennCare Housing	576,457
Cover TN	2,083
Medicare	176,030
Private Pay and Sliding Fee	29,766
Client rent/Section 8	38,316
Private insurance	26,803
United Way contribution	38,213
Donations	33,648
Other revenue	95,963
Interest income	<u>2,618</u>
Total operating revenue	3,533,416
Net assets released from restrictions	<u>61,713</u>
Total revenues, gains, and other support	<u>3,595,129</u>

(The accompanying notes are an integral part of these financial statements.)

**EXPENSES:**

Program services -	
C&A outpatient	431,688
C&A case management	222,134
Homeless outreach	29,009
B.A.S.I.C. grant	37,754
Adult outpatient	748,719
Level 1 case management	526,666
Independent living assistance	4,493
Peer support	91,502
Long-term support	231,616
Supportive housing services	346,997
Mitchell home	208,022
Creekview duplexes	<u>20,683</u>
Total program services	<u>2,899,283</u>
 Support services -	
General and administrative	<u>864,484</u>
 Total expenses	<u>3,763,767</u>
 Deficit of revenues over expenses and decrease in unrestricted net assets	<u>(168,638)</u>

**CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:**

United Way contribution	35,680
Net assets released from restrictions	<u>(61,713)</u>
 Decrease in temporarily restricted net assets	<u>(26,033)</u>

**DECREASE IN NET ASSETS** (194,671)**NET ASSETS:**

Beginning	<u>4,967,645</u>
 Ending	<u>\$ 4,772,974</u>

(The accompanying notes are an integral part of these financial statements.)

**FORTWOOD CENTER, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Decrease in net assets	\$ (194,671)
Adjustments to reconcile decrease in net assets to net cash used by operating activities -	
Depreciation and amortization	79,985
Bad debts	10,000
Net (increase) decrease in operating assets -	
Receivables	(197,815)
Pledge receivables	72,301
Prepaid expenses	(21,243)
Net increase (decrease) in operating liabilities -	
Accounts payable	(76,481)
Accrued expenses	<u>(106,554)</u>
Net cash used by operating activities	<u>(434,478)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchase of property and equipment	<u>(125,185)</u>
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**CASH FLOWS FROM FINANCING ACTIVITIES:**

Principal payments on note payable	<u>(57,383)</u>
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**NET DECREASE IN CASH AND CASH EQUIVALENTS** (617,046)

**CASH:**

Beginning	<u>1,813,061</u>
Ending	<u><u>\$ 1,196,015</u></u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Cash paid for interest	<u><u>\$ 6,321</u></u>
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(The accompanying notes are an integral part of these financial statements.)

**FORTWOOD CENTER, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Program Services</b>					
	C&A Outpatient	C&A Case Management	Homeless Outreach	B.A.S.I.C. Grant	Adult Outpatient	Adult Case Management
<b>EXPENSES:</b>						
Salaries and wages	\$ 297,379	\$ 151,166	\$ 18,813	\$ 28,968	\$ 517,527	\$ 359,512
Employee benefits	28,542	14,711	2,528	4,798	49,693	36,821
Payroll taxes	24,221	14,788	1,439	2,198	42,731	28,056
Professional fees	-	-	-	-	13	9
Contract labor	16,127	5,481	-	-	57,793	32,466
Supplies	11,480	3,161	-	707	8,671	5,086
Telephone and communications	7,730	3,703	90	165	7,893	6,907
Postage and shipping	506	323	-	-	498	322
Occupancy	14,562	3,082	-	15	15,207	9,991
Utilities	7,883	1,647	-	15	17,115	10,146
Equipment rental and maintenance	3,164	2,033	-	-	3,289	3,871
Printing and publications	307	1,667	-	-	1,939	1,293
Travel	300	16,338	1,785	888	2,420	23,747
Auto expense	-	-	-	-	379	265
Conferences and meetings	80	299	-	-	40	199
Interest	-	-	-	-	3,687	2,424
Insurance	-	-	-	-	-	-
Grants and awards	-	-	-	-	-	-
Specific assistance to individuals	94	-	4,354	-	2,717	207
Other expenses	-	-	-	-	620	401
Bad debt expense	1,000	-	-	-	9,000	-
Depreciation and amortization	18,313	3,735	-	-	7,487	4,943
	<u>\$ 431,688</u>	<u>\$ 222,134</u>	<u>\$ 29,009</u>	<u>\$ 37,754</u>	<u>\$ 748,719</u>	<u>\$ 526,666</u>

(The accompanying notes are an integral part of these financial statements.)

**FORTWOOD CENTER, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

(Continued)

	<b>Program Services</b>						Total Program Services
	Independent Living Assistance	Peer Support	Long-term Support	Supportive Housing Services	Mitchell Home	Creekview Duplexes	
<b>EXPENSES:</b>							
Salaries and wages	\$ -	\$ 41,720	\$ 133,916	\$ -	\$ 145,845	2,155	\$ 1,697,001
Employee benefits	-	5,545	18,476	-	6,947	355	168,416
Payroll taxes	-	4,009	12,106	-	11,874	156	141,578
Professional fees	-	-	300	-	100	-	422
Contract labor	-	-	15,357	-	150	207	127,581
Supplies	-	3,137	6,766	-	743	32	39,783
Telephone and communications	-	680	6,906	-	1,772	417	36,263
Postage and shipping	-	-	58	-	32	2	1,741
Occupancy	-	8,794	2,440	-	5,686	4,958	64,735
Utilities	-	4,732	1,619	-	8,932	6,937	59,026
Equipment rental and maintenance	-	9,324	944	-	741	13	23,379
Printing and publications	-	-	425	-	235	10	5,876
Travel	-	-	7,567	-	681	-	53,726
Auto expense	-	5,901	4,096	-	4,302	2	14,945
Conferences and meetings	-	-	-	-	20	-	638
Interest	-	-	-	-	28	22	6,161
Insurance	-	-	1,869	-	-	10	1,879
Grants and awards	-	-	12,288	346,997	-	-	359,285
Specific assistance to individuals	4,493	1,259	2,857	-	12,220	20	28,221
Other expenses	-	318	-	-	-	195	1,534
Bad debt expense	-	-	-	-	-	-	10,000
Depreciation and amortization	-	6,083	3,626	-	7,714	5,192	57,093
	<u>\$ 4,493</u>	<u>\$ 91,502</u>	<u>\$ 231,616</u>	<u>\$ 346,997</u>	<u>\$ 208,022</u>	<u>\$ 20,683</u>	<u>\$ 2,899,283</u>

(The accompanying notes are an integral part of these financial statements.)

**FORTWOOD CENTER, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

(Continued)

**Support Services**

	<u>General and Administrative</u>	<u>Total Expenses</u>
<b>EXPENSES:</b>		
Salaries and wages	\$ 403,192	\$ 2,100,193
Employee benefits	44,491	212,907
Payroll taxes	35,206	176,784
Professional fees	56,826	57,248
Contract labor	93	127,674
Supplies	45,644	85,427
Telephone and communications	13,179	49,442
Postage and shipping	1,609	3,350
Occupancy	13,102	77,837
Utilities	8,396	67,422
Equipment rental and maintenance	68,380	91,759
Printing and publications	4,356	10,232
Travel	5,251	58,977
Auto expense	5,083	20,028
Conferences and meetings	4,521	5,159
Interest	160	6,321
Insurance	79,447	81,326
Grants and awards	-	359,285
Specific assistance to individuals	-	28,221
Other expenses	52,656	54,190
Bad debt expense	-	10,000
Depreciation and amortization	22,892	79,985
	<u>\$ 864,484</u>	<u>\$ 3,763,767</u>

(The accompanying notes are an integral part of these financial statements.)

**FORTWOOD CENTER, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Organization –**

Fortwood Center, Inc., (the Center) is a not-for-profit Tennessee corporation chartered on February 3, 1958, to provide general mental health services. The Center provides comprehensive mental health services to adults, youth, and children in the Chattanooga, Tennessee area.

**Basis of accounting and presentation –**

The financial statements of the Center have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board-designated, are reported as part of the unrestricted class.

**Cash and cash equivalents –**

Cash and cash equivalents include cash on hand, deposits in banks, and investments (money market account) in highly liquid debt instruments with a maturity of three months or less when purchased.

**Investments –**

Investments are stated at fair market value. Fair value for all investments is determined by reference to quoted market prices in active markets for identical assets (Level 1). Net realized and unrealized gains and losses on investments are reported as increases or decreases in unrestricted net assets unless its use is temporarily or permanently restricted by explicit donor stipulations or by law.

**Trade Receivables –**

For trade receivables, the allowance for doubtful accounts is based on management's assessment of the collectability of specific clients' accounts and the aging of the accounts receivable. If there is a deterioration of a client's credit worthiness or actual defaults are higher than historical experience, management's estimates of recoverability of amounts due to the Center could be adversely affected. Balances that remain outstanding after the Center has used reasonable collection efforts are written off through a charge to the allowance and a credit to the receivable.

**Use of estimates –**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

**FORTWOOD CENTER, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**Property and equipment –**

The Center capitalizes all expenditures in excess of \$2,000 for property and equipment at cost. Donated property and equipment are recorded at estimated fair value at the date of receipt. Depreciation is provided over the estimated useful lives of depreciable assets and is computed on the straight-line method. For property and equipment acquired with grant funds, the various Federal or State grantor agencies maintain an equitable interest in these assets. The Grantor agencies also may maintain the right to determine the use of any proceeds from the sale of such property and equipment.

**Donated property and equipment –**

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Center reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**Income taxes –**

The Center is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

**Contributions –**

Contributions are recognized when the donor makes a promise to give to the Center that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted assets are reclassified to unrestricted net assets.

**Revenue –**

The Center received various grants from the U.S. Department of Health and Human Services and Tennessee Department of Mental Health. The grants may require the Center to maintain certain levels of service and generally require the Center to provide a specified percentage of local matching funds. The Center recognizes revenue from the grants only when all conditions specified within the grants have been accomplished.

The Center's TennCare revenues consist primarily of capitated rates, fee for service, and housing services billed and collected monthly.

Patient fee revenue is reported at the estimated net realizable amounts from clients, third-party payors, and others for services rendered. Clients are charged for their share of fees based upon a sliding scale fee, which is determined by their ability to pay. Such determination is based upon financial information obtained from the clients and subsequent analysis. Third-party contractual adjustments are accrued on an estimated basis in the period the related services are rendered.

**FORTWOOD CENTER, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**Compensated absences –**

The Center accrues employees' vacation and sick pay as earned.

**Functional allocation of expenses –**

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

**(2) CASH, CASH EQUIVALENTS, AND ASSETS LIMITED AS TO USE:**

A summary of cash, cash equivalents, and assets limited as to use at June 30, 2012, follows. Investments are stated at fair market value.

Cash on hand and in bank	\$ 275
Cash in interest-bearing accounts	<u>1,195,740</u>
 Cash and cash equivalents	 <u><u>\$ 1,196,015</u></u>

**(3) ACCOUNTS RECEIVABLE:**

Accounts receivable from grants and contracts consists of amounts earned in accordance with grant and contract terms, but not received at June 30, 2012. A summary of accounts receivable from grants and contracts at June 30, 2012, follows:

U.S. Department of Housing and Urban Development:	
Supportive Housing Program	\$ 34,663
Tennessee Department of Mental Health and Developmental Disabilities:	
Block grant	<u>141,266</u>
 Total grants receivable	 <u><u>\$ 175,929</u></u>

Accounts receivable from others for services rendered are due primarily from governmental agencies, third-party payors, and individuals or their insurance companies.

**(4) PROMISES TO GIVE:**

Promises to give represent promises which have been made by donors but have not yet been received by the Center. The Center considers promises to give fully collectible; accordingly, no allowance for uncollectible promises has been provided.

**FORTWOOD CENTER, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**(5) PROPERTY AND EQUIPMENT:**

A summary of property and equipment at June 30, 2012, follows:

		<u>Estimated Useful Lives</u>
Land (\$380,000 permanently restricted)	\$ 978,000	Nondepreciable
Building and leasehold improvements	2,188,530	5-39 Years
Furniture and equipment	596,860	5-10 Years
Transportation equipment	<u>120,086</u>	4-5 Years
	3,883,476	
Less accumulated depreciation	<u>(910,018)</u>	
Property and equipment, net	<u>\$ 2,973,458</u>	

Depreciation and amortization expense totaled \$79,985 for the year ended June 30, 2012.

**(6) LONG-TERM DEBT:**

A summary of the long-term debt at June 30, 2012 follows:

Note payable – First Tennessee Bank	
Interest rate: 5.15%	
Repayment provision: Monthly principal and interest payments of \$5,339 through December 2013	
Security: Land and building with a net book value of \$457,115 at June 30, 2012	\$ 89,234
Less current portion	<u>60,940</u>
	<u>\$ 28,294</u>

Scheduled principal repayments on long-term debt are as follows:

For the year ending 2013	\$ 60,940
2014	<u>28,294</u>
	<u>\$ 89,234</u>

**FORTWOOD CENTER, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**(7) NET ASSETS:**

**Unrestricted net assets –**

The Board of Directors has designated a total of \$75,000 for potential future years' possible unemployment claims.

**Temporarily restricted net assets –**

The Center received a grant from the State of Tennessee specifically for the purpose of acquiring two duplex apartments. The grant provisions provide that a non-interest bearing note and a deed of trust to the Tennessee Department of Mental Health and Developmental Disabilities, in the amount of \$160,000, be executed. The provisions of the note and deed of trust are that no portion of the \$160,000 will be required to be repaid as long as the property is maintained as a residence for low or very low income persons for twenty years from the date that the property is first available for occupancy. The property was first occupied, under the terms of the agreement, on January 12, 2003, and cannot be sold, leased, or otherwise transferred, conveyed or encumbered during the twenty year period ending January 12, 2023.

The Center received a grant from the Federal Home Loan Bank of Cincinnati (FHLB) for the specific purpose of building a group home for the affordable housing program. The provisions of the grant agreement are that no portion of the \$270,500 will be required to be repaid as long as the property remains occupied by and affordable for households with incomes of at or below fifty percent of area median income for a period of fifteen years from the date of recording of the deed (from June 13, 2007, to June 13, 2022).

Additionally, the United Way's promise to give funding associated with various programs is included in the temporarily restricted net asset balance.

Components of temporarily restricted net assets as of June 30, 2012, were:

Duplex Apartment Restriction	\$ 80,000
FHLB Grant administration	180,335
United Way Promise to Give	<u>35,679</u>
	<u>\$ 296,014</u>

**Permanently restricted net assets –**

The State of Tennessee deeded to the Center the land it occupied on East Third Street in Chattanooga, Tennessee in 1999. The State conveyance imposed conditions that the land be used solely as a mental health facility, or if sold that the net proceeds be distributed to the State or reinvested in another mental health facility. During 2011, the Center traded the land for a new building to be used as a mental health facility. The restriction remains with the acquired building.

**FORTWOOD CENTER, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**(8) PENSION PLAN:**

The Center contributes to the Fortwood Center, Inc., Employee Benefit Plan (the Plan), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investments of those contributions. All employees of the Center participate in the Plan from the first day of the month following the attainment of age 21 and completion of one year of service. One year of service is the completion of 1,000 or more hours of service during a 12-month period of employment. Contributions made by the Center are fully vested upon completion of 3 years of service. An employee who leaves the employment of the Center is entitled to the vested portion of contributions made by the Center. Under the Plan, the Center contributed 4% of each eligible participant's compensation. The Center's contribution to the plan for the year ended June 30, 2012, was \$74,018.

**(9) COMMITMENTS AND CONTINGENCIES:**

**Claims-made insurance policies –**

The Center purchases professional and general liability insurance coverage under claims-made policies with an independent carrier. The policies cover all claims reported to the carrier during the coverage period. Premiums are determined by a variety of factors related to the Center. Settled claims have not exceeded this commercial coverage in any of the preceding three years.

**Grants –**

Financial awards from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Center for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

The Center received a one time incentive payment during the fiscal year for the adoption and meaningful use of certified electronic health record technology, which required the Center to successfully demonstrate compliance with meaningful use objectives. The Center believes they have met this criteria for reporting the income in the current fiscal year.

**TennCare –**

Revenue from TennCare programs accounted for approximately 57% of the Center's revenues for the fiscal year ending June 30, 2012.

**Uncertain tax positions –**

The Center is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The Center believes that it has appropriate support for any tax positions, and as such, does not have any uncertain tax positions that are material to the financial statements. The Center's Forms 990, *Returns of Organization Exempt from Income Tax*, for the fiscal years ending 2009, 2010 and 2011 remain subject to examination by the IRS, generally for 3 years after they were filed.

**FORTWOOD CENTER, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**(10) CONCENTRATIONS OF CREDIT RISK:**

The Center is located in Chattanooga, Tennessee. The Center grants credit without collateral to its clients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2012, was as follows:

Medicare	10%
TennCare	85
Patients and others	<u>5</u>
	<u>100%</u>

The Center has cash deposits with a financial institution located within Tennessee. The Center does not require collateral or other support for deposits in excess of the federally insured limit. A summary of the Center's deposits at June 30, 2012 follows:

	<u>Bank Balance</u>
Insured by the Federal Deposit Insurance Corporation	\$ 979,927
Uninsured and uncollateralized, covered by SIPC	<u>301,039</u>
 Total cash deposits	 <u>\$ 1,280,966</u>

The Center's uninsured and uncollateralized cash is held in a money market account. The account has no bank guarantee and may lose value.

**(11) FAIR VALUE MEASUREMENTS:**

FASB ASC 820-10, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: level 1 inputs consist of unadjusted quoted prices for identical assets and have the highest priority, level 2 inputs consist of either quoted prices for similar assets in active markets, quoted prices for identical and/or similar assets in inactive markets, or inputs other than quoted prices that are observable for the asset, while level 3 input valuation methodology are unobservable and significant to the fair value measurement and have the lowest priority. The Center uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. All investments have been valued using level 1 inputs. There have been no changes in valuation techniques and related inputs.

**(12) SUBSEQUENT EVENTS:**

Subsequent events were evaluated through December 28, 2012, which is the date the financial statements were available to be issued. As of December 28, 2012, a Plan of Merger between Fortwood Center, Inc. and Helen Ross McNabb Center, Inc. (based in Knoxville, Tennessee) has been submitted to the State of Tennessee's Attorney General for final approval. Once approval is issued, the Definitive Merger Agreement will be executed to combine the two centers. Fortwood Center will retain its name and local brand recognition but operate as a division of HRMC. A target date of February 1, 2013 is expected for completion of the process.

## **SUPPLEMENTARY DATA**

**FORTWOOD CENTER, INC.**  
**SCHEDULE 1 - SCHEDULE OF PROGRAM AND SUPPORTING SERVICES ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Program Services</b>					
	C&A Outpatient	C&A Case Management	Homeless Outreach	B.A.S.I.C. Grant	Adult Outpatient	Adult Case Management
<b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:</b>						
Federal grants	\$ -	\$ -	\$ -	40,016	\$ -	\$ -
State of Tennessee grants	-	-	33,086	-	211,592	131,347
Local government grants	10,500	-	-	-	94,500	-
Program revenue, net -						
TennCare Capitated	-	122,325	-	-	630	331,709
TennCare Fee for Service	256,943	229,775	-	-	177,318	351,555
TennCare Housing	-	-	-	-	-	-
Cover TN	1,712	-	-	-	371	-
Medicare	-	-	-	-	176,030	-
Private Pay and Sliding Fee	3,562	-	-	-	26,174	30
Client rent/Section 8	-	-	-	-	-	-
Private insurance	9,367	-	-	-	17,436	-
United Way contribution	18,877	-	-	-	19,336	-
Donations	-	-	-	-	-	-
Other revenue	2,508	-	-	-	4,449	-
Interest income	-	-	-	-	-	-
	<u>303,469</u>	<u>352,100</u>	<u>33,086</u>	<u>40,016</u>	<u>727,836</u>	<u>814,641</u>
Net assets released from restrictions	<u>17,358</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,322</u>	<u>-</u>
	<u>320,827</u>	<u>352,100</u>	<u>33,086</u>	<u>40,016</u>	<u>746,158</u>	<u>814,641</u>
<b>EXPENSES:</b>						
Program expenses	431,688	222,134	29,009	37,754	748,719	526,666
Allocation of supporting services expenses	<u>137,856</u>	<u>70,936</u>	<u>9,264</u>	<u>12,057</u>	<u>239,101</u>	<u>168,187</u>
	<u>569,544</u>	<u>293,070</u>	<u>38,273</u>	<u>49,811</u>	<u>987,820</u>	<u>694,853</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT OVER (UNDER) EXPENSES</b>	<u>\$ (248,717)</u>	<u>\$ 59,030</u>	<u>\$ (5,187)</u>	<u>\$ (9,795)</u>	<u>\$ (241,662)</u>	<u>\$ 119,788</u>

**FORTWOOD CENTER, INC.**  
**SCHEDULE 1 - SCHEDULE OF PROGRAM AND SUPPORTING SERVICES ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

(Continued)

	<b>Program Services</b>						
	Independent Living Assistance	Peer Support	Long-term Support	Supportive Housing Services	Mitchell Home	Creekview Duplexes	Program Total
<b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:</b>							
Federal grants	\$ 4,860	\$ 970	\$ -	\$ -	\$ 138,649	\$ -	\$ 184,495
State of Tennessee grants	-	99,415	278,329	-	-	-	753,769
Local government grants	-	-	-	-	-	-	105,000
Program revenue, net -							
TennCare Capitated	-	-	-	-	-	-	454,664
TennCare Fee for Service	-	-	-	-	-	-	1,015,591
TennCare Housing	-	-	-	438,274	138,183	-	576,457
Cover TN	-	-	-	-	-	-	2,083
Medicare	-	-	-	-	-	-	176,030
Private Pay and Sliding Fee	-	-	-	-	-	-	29,766
Client rent/Section 8	-	-	-	-	16,822	21,494	38,316
Private insurance	-	-	-	-	-	-	26,803
United Way contribution	-	-	-	-	-	-	38,213
Donations	-	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-	6,957
Interest income	-	-	-	-	-	-	-
	<u>4,860</u>	<u>100,385</u>	<u>278,329</u>	<u>438,274</u>	<u>293,654</u>	<u>21,494</u>	<u>3,408,144</u>
Net assets released from restrictions	-	-	-	-	26,033	-	61,713
	<u>4,860</u>	<u>100,385</u>	<u>278,329</u>	<u>438,274</u>	<u>319,687</u>	<u>21,494</u>	<u>3,469,857</u>
<b>EXPENSES:</b>							
Program expenses	4,493	91,502	231,616	346,997	208,022	20,683	2,899,283
Allocation of supporting services expenses	998	29,220	73,965	49,865	66,430	6,605	864,484
	<u>5,491</u>	<u>120,722</u>	<u>305,581</u>	<u>396,862</u>	<u>274,452</u>	<u>27,288</u>	<u>3,763,767</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT OVER (UNDER) EXPENSES</b>	<u>\$ (631)</u>	<u>\$ (20,337)</u>	<u>\$ (27,252)</u>	<u>\$ 41,412</u>	<u>\$ 45,235</u>	<u>\$ (5,794)</u>	<u>\$ (293,910)</u>

**FORTWOOD CENTER, INC.**  
**SCHEDULE 1 - SCHEDULE OF PROGRAM AND SUPPORTING SERVICES ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

(Continued)

	<u>Support Services</u>	
	<u>General and Administrative</u>	<u>Total</u>
<b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:</b>		
Federal grants	\$ -	\$ 184,495
State of Tennessee grants	-	753,769
Local government grants	-	105,000
Program revenue, net -		
TennCare Capitated	-	454,664
TennCare Fee for Service	-	1,015,591
TennCare Housing	-	576,457
Cover TN	-	2,083
Medicare	-	176,030
Private Pay and Sliding Fee	-	29,766
Client rent/Section 8	-	38,316
Private insurance	-	26,803
United Way contribution	-	38,213
Donations	33,648	33,648
Other revenue	89,006	95,963
Interest income	<u>2,618</u>	<u>2,618</u>
	125,272	3,533,416
Net assets released from restrictions	<u>-</u>	<u>61,713</u>
	<u>125,272</u>	<u>3,595,129</u>
<b>EXPENSES:</b>		
Program expenses	864,484	3,763,767
Allocation of supporting services expenses	<u>(864,484)</u>	<u>-</u>
	<u>-</u>	<u>3,763,767</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT OVER (UNDER) EXPENSES</b>	<u>\$ 125,272</u>	<u>\$ (168,638)</u>

**FORTWOOD CENTER, INC.**  
**SCHEDULE 2 - SCHEDULE OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Grant/ Project Number	Receivable Balance July 1, 2011	Cash Receipts	Federal Expenditures	Receivable Balance June 30, 2012
<b>U.S. Department of Housing &amp; Urban Development:</b>						
Supportive Housing Program (7/10-6/11)	14.235	TN37B600007	\$ 69,325	\$ 69,325	\$ -	\$ -
Supportive Housing Program (7/11-6/12)	14.235	TN37B600007	-	103,986	138,649	34,663
<b>U.S. Department of Health &amp; Human Services:</b>						
Passed through Tennessee Department of Mental Health and Development Disabilities:						
Block Grants for Community Mental Health Services -						
B.A.S.I.C. (7/10-6/11)	93.958	GR1131628	6,233	6,233	-	-
B.A.S.I.C. (7/11-6/12)	93.958	GR1235922	-	36,148	40,016	3,868
Peer Support (formerly Drop-In) Center (7/11-6/12)	93.958	GR1236404	-	970	970	-
Intensive Long-Term Support (7/10-6/11)	93.958	GR1132294	48,756	48,756	-	-
Community Targeted Transitional Support (7/10-6/11)	93.958	GR1132292	694	694	-	-
Community Targeted Transitional Support (7/11-6/12)	93.958	GF1235810	-	3,718	4,860	1,142
			<u>\$ 125,008</u>	<u>\$ 269,830</u>	<u>\$ 184,495</u>	<u>\$ 39,673</u>

**FORTWOOD CENTER, INC.**  
**SCHEDULE 3 - SCHEDULE OF STATE AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<u>Grantor/ Pass-through Grantor Agency/ Program Title</u>	<u>Grant Number</u>	<u>Receivable Balance July 1, 2011</u>	<u>Cash Receipts</u>	<u>Federal Expenditures</u>	<u>Receivable Balance June 30, 2012</u>
<b>Tennessee Department of Mental Health and Developmental Disabilities:</b>					
Block Grants for Community Mental Health Services -					
C&Y Homeless Outreach (7/10-6/11)	GR1132293	\$ 2,404	\$ 2,404	\$ -	\$ -
C&Y Homeless Outreach (7/11-6/12)	GR1235812	-	27,099	33,086	5,987
Intensive Long-term Support Services (7/11-6/12)	GR1235811	-	208,847	278,330	69,483
Peer Support Center (7/10-6/11)	GR1132734	14,178	14,178	-	-
Peer Support Center (7/11-6/12)	GR1236404	-	78,496	99,414	20,918
Mobile Crisis Services (7/10-6/11)	GR1132733	15,853	15,853	-	-
Mental Health Safety Net Program (7/10-6/11)	GR1131552	32,737	32,737	-	-
Mental Health Safety Net Program (7/11-6/12)	GR1235792	-	303,071	342,939	39,868
		<u>\$ 65,172</u>	<u>\$ 682,685</u>	<u>\$ 753,769</u>	<u>\$ 136,256</u>

**FORTWOOD CENTER, INC**  
**NOTES TO SCHEDULES OF FEDERAL AND STATE AWARDS**  
**JUNE 30, 2012**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The preceding schedules of federal and state awards include the grant activity of Fortwood Center, Inc., and are presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of as required by the State of Tennessee Division of Audit. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.



**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  
Fortwood Center, Inc.:**

We have audited the financial statements of Fortwood Center, Inc., (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 28, 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 Fortwood Center, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Fortwood Center, Inc.'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 Fortwood Center, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 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 a part of obtaining reasonable assurance about whether Fortwood Center, Inc.'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 of the Board of Directors, management, the Comptroller of the Treasury, State of Tennessee, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Johnson, Niskey & Meuchem, P.C.*

December 28, 2012

**FORTWOOD CENTER, INC**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**JUNE 30, 2012**

**PRIOR YEAR FINDINGS**

2011-1 Proper support for client contacts

*Condition:* Internal control procedures require all client contact charges to be supported by notations from the employee performing the service. During control testing, one charge for a case management service was found to be unsupported by the required records. Upon further testing, it was discovered that the employee had many unsupported case management charges during her period of employment from August 2010 to March 2011. These unsupported charges totaled \$21,900. The employee in question was not turning in the client contact sheets and billing details at the same time, preventing the reports from being crosschecked by the receiver, thus bypassing the internal control system. Also, required periodic spot checks were not performed by clinical supervisors during fiscal year 2011. Thus, revenues were overstated by \$21,900.

*Recommendation:* All employees should be required to turn in the client contact sheets and billing details at the same time and in a timely manner to the receiver. These reports should be crosschecked by the receiver. Medical Records and Patient Billing departments should not accept these reports directly from employees. The clinical supervisors should do periodic inspections throughout the year to ensure all client contact sheets are properly recorded and filed and all client charges are supported by the proper records.

*Current Status:* Client issued refunds to the effected insurance carriers. Internal control procedures were immediately changed to the recommendations by the auditor. No similar findings were noted in the fiscal year 2012 audit.

**CURRENT YEAR FINDINGS AND RESPONSES**

None

