BEHAVIORAL SERVICES
OF TENNESSEE, INC.
Memphis, Tennessee

Audited Financial Statements
Years Ended December 31, 2011 and 2010

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HORNE
CPAs & Business Advisors

INDEPENDENT AUDITOR'S REPORT

Stockholders
Behavioral Services of Tennessee, Inc.
Memphis, Tennessee

We have audited the accompanying balance sheets of Behavioral Services of Tennessee, Inc. (an S Corporation) (the "Company") as of December 31, 2011 and 2010, and the related statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company'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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 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 Company as of December 31, 2011 and 2010, and the results of its operations 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 June 28, 2012 on our consideration of the Company's internal control over financial reporting and 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 *Government Auditing Standards* and should be considered in assessing the result of our audits.

Horne LLP

Nashville, Tennessee
June 28, 2012

BEHAVIORAL SERVICES OF TENNESSEE, INC.
Balance Sheets
December 31, 2011 and 2010

	2011	2010
ASSETS		
Current assets		
Cash	$ 371,606	$ 302,202
Accounts receivable	731,708	690,445
Prepaid expense	92,318	29,258
Total current assets	1,195,632	1,021,905
Property and equipment		
Land	15,000	-
Buildings and improvements	57,328	-
Furniture and equipment	281,242	173,743
Automobiles	502,110	502,921
Software	161,284	134,202
	1,016,964	810,866
Less accumulated depreciation	(598,113)	(425,784)
Property and equipment, net	418,851	385,082
Due from stockholder	8,078	-
Deferred income taxes	911	-
Total assets	$ 1,623,472	$ 1,406,987
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 49,861	$ 54,595
Line of credit	200,000	-
Accounts payable and accrued expenses	290,897	282,377
Due to stockholder	-	541
Deferred income taxes	33,395	28,305
Total current liabilities	574,153	365,818
Deferred income taxes	-	4,962
Long-term debt, less current maturities	91,744	133,850
Total liabilities	665,897	504,630
Stockholders' equity		
Capital stock, $.01 par value		
10,000 authorized, 100 shares issued and outstanding	1	1
Paid-in capital	2,066	2,066
Additional paid-in capital	72,328	-
Retained earnings	883,180	900,290
Total stockholders' equity	957,575	902,357
Total liabilities and stockholders' equity	$ 1,623,472	$ 1,406,987

See accompanying notes.

BEHAVIORAL SERVICES OF TENNESSEE, INC.
Statements of Operations and Retained Earnings
Years Ended December 31, 2011 and 2010

	2011	**2010**
Operating income		
Consulting fees	$ 8,441,822	$ 7,293,557
Software fees	16,442	4,795
Total operating income	8,458,264	7,298,352
Operating expenses		
Salaries and wages	6,464,879	5,478,950
Payroll taxes	524,161	425,772
Retirement plan expense	33,364	-
Insurance	608,839	483,515
Professional fees	66,245	64,677
Depreciation	201,852	152,184
Automobiles	170,557	161,848
Telephone	99,337	86,181
Supplies	124,364	103,293
Rent	38,242	55,429
Meals, entertainment and travel	19,323	26,598
Other expenses	81,522	58,089
Education	3,887	7,975
Taxes - other	22,043	19,470
Postage	3,677	2,608
Licenses and permits	1,760	2,360
Total operating expenses	8,464,052	7,128,949
Operating income (loss)	(5,788)	169,403
Other income (expense)		
Interest expense	(14,355)	(14,770)
Gain on disposal of property and equipment	2,250	-
Total other expense	(12,105)	(14,770)
Income (loss) before income taxes	(17,893)	154,633
Income tax expense (benefit)	(783)	13,506
Net income (loss)	(17,110)	141,127
Retained earnings, beginning of year	900,290	759,163
Retained earnings, end of year	$ 883,180	$ 900,290

See accompanying notes.

BEHAVIORAL SERVICES OF TENNESSEE, INC.
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Net income (loss)	$ (17,110)	$ 141,127
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	201,852	152,184
Gain on disposal of property and equipment	(2,250)	-
Deferred income taxes	(783)	2,501
Changes in		
Accounts receivable	(41,263)	(155,017)
Prepaid expense	(63,060)	67,945
Due (to) from shareholder	(8,619)	541
Accounts payable and accrued expenses	8,520	115,519
Net cash provided by operating activities	77,287	324,800
Cash flows from investing activities		
Purchases of property and equipment	(151,239)	(173,115)
Proceeds from sale of property and equipment	16,605	-
Net cash used in investing activities	(134,634)	(173,115)
Cash flows from financing activities		
Borrowings on line of credit, net	200,000	-
Principal payments on long-term debt	(73,249)	(64,956)
Net cash provided by (used in) financing activities	126,751	(64,956)
Net increase in cash	69,404	86,729
Cash, beginning of year	302,202	215,473
Cash, end of year	$ 371,606	$ 302,202
Supplemental disclosures		
Cash paid for interest	$ 14,355	$ 14,770
Noncash investing and financing activities		
Issuance of long-term debt for acquisition of property and equipment	$ 26,409	$ 109,917
Contribution of property and equipment from owner	$ 72,328	$ -

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies

Nature of Business

Behavioral Services of Tennessee, Inc. (the "Company" or "BSTN") is a Tennessee corporation formed on January 16, 2001, for the purpose of improving the quality of life of people in need of behavior support through the implementation of sound programs rooted in the science of applied behavior analysis in West Tennessee. The Company provides residential, day and behavior services to individuals diagnosed with autism, mental retardation, mental illness and traumatic brain injury in need of support by developing customized programs to assist each person in acquiring and maintaining independence, quality of life, physical and mental health in their residence and community.

The Company also provides certain customers access to the use of proprietary software through the use of the BSTN Portal.

Accounting Method

The Company prepares its financial statements on the accrual basis of accounting. Under this method of accounting, revenue is recognized when services are rendered. Expenses are recognized when they are incurred.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary. Management performs a periodic review of the accounts receivable and determines if any allowance is considered necessary based on its assessment of specific customer accounts and the aging of the accounts receivable.

Prepaid Expenses

Prepaid expenses are amortized over the period of benefit using the straight-line method.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Property and Equipment

Property and equipment are recorded at cost. Depreciation of property and equipment is computed using the straight-line method based on the estimated useful lives. The following are the useful lives assigned to property and equipment:

Buildings and improvements	27.5 years
Furniture and equipment	2 – 7 years
Automobiles	3 – 5 years
Software	3 years

Depreciation expense was $201,852 and $152,184 for the years ended December 31, 2011 and 2010, respectively.

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon such an occurrence, recoverability of assets to be held and used is measured by comparing the carrying amount to estimated undiscounted future cash flows. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized based upon the amount by which the carrying amount exceeds the fair value of the asset.

Revenue Recognition

The Company recognizes consulting fee revenues as services to patients are rendered. The Company recognizes software fee revenues on a straight-line basis over the period of the contract which is generally January 1 to December 31.

Advertising

The Company's policy is to expense advertising costs as they are incurred. Advertising costs incurred were $1,420 and $2,100 for the years ended December 31, 2011 and 2010, respectively.

Income Taxes

The Company has elected by consent of its stockholders to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Accordingly, no provision or liability for federal income taxes is reflected in the accompanying financial statements. Instead, the stockholders are liable for individual federal income taxes on his/her share of the Company's taxable income.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

The State of Tennessee does not recognize the Subchapter S status for corporations. Consequently, the Company is responsible for the payment of Tennessee state income taxes.

Deferred state taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company files its tax returns under the cash basis of accounting.

In accordance with ASC Topic 740, the Company determines if there are any uncertain tax positions that should be recognized, including the Company's status as a pass-through entity. Additionally, ASC Topic 740 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company had no significant uncertain tax positions at December 31, 2011 and 2010.

If interest and penalties are incurred related to uncertain tax positions, such amounts are recognized in income tax expense. Tax periods for all fiscal years 2008 and after remain open to examination by the federal and state taxing jurisdictions to which the Company is subject.

<u>New Accounting FASB Pronouncements</u>

In August 2010, the FASB issued authoritative guidance related to the presentation of insurance claims and related insurance recoveries, which addresses the diversity in practice related to the accounting by healthcare entities for medical malpractice claims and similar liabilities and their related anticipated insurance recoveries. The standards update clarifies that a healthcare entity may not net expected insurance recoveries against related claim liabilities and the amount of the claim liability must be determined without consideration of insurance recoveries. The guidance is effective for periods beginning after December 15, 2010. The adoption of the guidance in 2011 did not have a material impact on the Company's business, financial position or results of operations.

In July 2011, the FASB issued authoritative guidance related to the presentation and disclosure of patient service revenue, provision for bad debts and the allowance for doubtful accounts for certain healthcare entities. The provisions of the guidance require healthcare entities that recognize significant amounts of patient service revenue at the time services are rendered, even though they do not assess a patient's ability to pay, to present the provision for bad debts related to those revenues as a deduction from patient service revenue (net of contractual allowances and discounts), as opposed to an operating expense. All other entities would continue to present the

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

provision for bad debts as an operating expense. The guidance is effective for periods beginning after December 15, 2011. Early adoption is permitted, but full retrospective application is required. The adoption of the guidance is not expected to have a material impact on the Company's business, financial position or results of operations.

Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

Note 2. Long-Term Debt and Credit Facility

Long-term debt consisted of the following:

	2011	2010
Note payable to Honda Financial Services, in monthly installments of $500, including interest at 5.69 percent, collateralized by a vehicle and paid in full in 2011	$ -	$ 5,346
Notes payable to Toyota Financial Services, in various monthly installments, collateralized by vehicles and paid in full in 2011	-	19,696
Note payable to Toyota Financial Services, in monthly installments of $274 through September 2012, including interest at 7.003 percent, collateralized by a vehicle	2,140	5,161
Notes payable to Toyota Financial Services, in various monthly installments through December 2013, including interest ranging from 6.75 to 7.91 percent, collateralized by vehicles	18,490	32,855
Notes payable to Toyota Financial Services, in various monthly installments through June 2014, including interest ranging from zero to 5.80 percent, collateralized by vehicles	38,417	54,396
Notes payable to Toyota Financial Services, in various monthly installments through September 2015, including interest ranging from 5.10 to 7.00 percent, collateralized by vehicles	43,586	35,515
Notes payable to Toyota Financial Services, in various monthly installments through August 2016, including interest ranging from 7.00 to 7.14 percent, collateralized by vehicles	38,972	35,476
Total	141,605	188,445
Less current maturities	(49,861)	(54,595)
Long-term debt, less current maturities	$ 91,744	$ 133,850

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

Aggregate annual maturities of long-term debt for each of the next five years are as follows:

		Amount
2012	$	49,861
2013		43,937
2014		28,040
2015		16,296
2016		3,471
Total	$	141,605

In addition, the Company has a $550,000 revolving line of credit with a local financial institution. The line of credit requires interest to be paid at a rate of 5.00 percent at December 31, 2011 and is secured by the Company's accounts receivable. There were $200,000 outstanding borrowings on the line of credit at December 31, 2011. The line of credit will expire on March 7, 2013.

Note 3. Operating Leases

The Company maintains operating lease agreements for its office location as well as certain equipment. The lease agreements are month-to-month. Total rent expense was $38,242 and $55,429 for the years ended December 31, 2011 and 2010, respectively.

Note 4. Income Taxes

The net deferred tax liability consisted of the following components at December 31, 2011 and 2010:

		2011		**2010**
Deferred tax assets				
Accounts payable and accrued expenses	$	18,785	$	16,573
State NOL carryforward		6,949		-
		25,734		16,573
Deferred tax liabilities				
Accounts receivable		(47,561)		(44,878)
Prepaid expenses		(4,619)		-
Property and equipment, net		(6,038)		(4,962)
		(58,218)		(49,840)
Net deferred tax liability	$	(32,484)	$	(33,267)

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

The deferred tax amounts mentioned above have been classified on the accompanying balance sheets as of December 31, 2011 and 2010 as follows:

		2011		**2010**
Current liabilities	$	(33,395)	$	(28,305)
Non-current assets (liabilities)		911		(4,962)
	$	(32,484)	$	(33,267)

Income taxes charged to operations for the years ended December 31, 2011 and 2010 consisted of the following:

		2011		**2010**
Current income tax	$	-	$	11,005
Deferred tax (benefit) expense		(783)		2,501
	$	(783)	$	13,506

The Company has available a state net operating loss of approximately $107,000 at December 31, 2011 that is available to carry forward and offset future state taxable income if the loss is not carried back to refund prior paid state taxes. If not utilized, the net operating loss will expire in 2026.

Note 5. Concentrations

The Company's consulting fees revenue is derived through services to people in need of behavioral support. All of the Company's revenue is funded and paid through three state agencies. The largest agency is the State of Tennessee Division of Mental Retardation Services, which comprised 99 and 93 percent of the Company's consulting fee revenue in 2011 and 2010, respectively. The State of Tennessee Division of Mental Retardations Services also comprised 99 and 97 percent of total accounts receivable at December 31, 2011 and 2010, respectively.

Certain financial instruments potentially subject the Company to concentrations of credit risk. Those financial instruments consist primarily of cash deposited in excess of FDIC insured limits. As of December 31, 2011 and 2010, the Company maintained cash deposits with one bank. The Company places its cash with high credit quality financial institutions. At December 31, 2011, the Company had deposits of approximately $183,000 in excess of the insured limit of $250,000.

NOTES TO FINANCIAL STATEMENTS

Note 6. Employee Benefit Plan

The Company sponsors a 401(k) salary reduction plan (the "Plan"). Employees with over one year of employment are eligible to participate. For the year ended December 31, 2010, employer contributions were discretionary and no employer contributions were made. Effective January 1, 2011, the Company amended the Plan to include a Safe Harbor Matching provision with contributions not to exceed 3 percent of participant compensation. For the year ended December 31, 2011, the Company contributed approximately $33,400 to the Plan.

Note 7. Related Party Transactions

The Company leases their office building from a stockholder of the Company. The lease is on a month-to-month basis. The amount of rent expense incurred and paid to the stockholder by the Company was $38,242 and $55,429 for the years ended December 31, 2011 and 2010, respectively. From time-to-time, certain expenses are paid by the Company or by the stockholder on the other's behalf. Such amounts are recorded as a due to or due from stockholder on the balance sheet. As of December 31, 2011, the Company had an amount due from stockholder totaling $8,078. As of December 31, 2010, the Company had an amount due to stockholder totaling $541.

During 2011 a stockholder contributed land and a building at a combined value equal to the stockholder's amortized cost basis of $72,328.

Note 8. Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through June 28, 2012, the date the financial statements were available to be issued.

HORNE
CPAs & Business Advisors

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Stockholders
Behavioral Services of Tennessee, Inc.
Memphis, Tennessee

We have audited the financial statements of Behavioral Services of Tennessee, Inc. (the "Company") as of and for the year ended December 31, 2011, and have issued our report thereon dated June 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 the Company is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Company'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 Company's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Company'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 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 or significant deficiencies, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company'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 audits 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 the stockholders, management, the Comptroller of the Treasury, State of Tennessee and others within the Company and is not intended to be, and should not be, used by anyone other than those specified parties.

Horne LLP

Nashville, Tennessee
June 28, 2012