FORTWOOD CENTER, INC

Chattanooga , Tennessee

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended June 30, 2011

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JOHNSON HICKEY MURCHISON
CERTIFIED PUBLIC ACCOUNTANTS • SINCE 1977

INDEPENDENT AUDITOR'S 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, 2011, 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, 2011, 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 March 15, 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 according with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Fortwood Center, Inc., taken 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 federal and state awards are presented for purposes of additional analysis as required by the State of Tennessee Division of Municipal Audit, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements take as a whole

Johnson, Hickey & Murchison, P.C.

Chattanooga, Tennessee
March 15, 2012

FORTWOOD CENTER, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS

CURRENT ASSETS:		
Cash and cash equivalents	$	1,813,061
Unconditional promises to give		107,980
Grants receivable		190,947
Other receivables, net of allowance for doubtful accounts of $13,700		297,861
Prepaid expenses		31,620
Total current assets		2,441,469
PROPERTY AND EQUIPMENT, net		2,928,258
OTHER ASSETS:		
Unconditional promises to give, net of current portion		50,000
	$	5,419,727

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

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Current maturities of notes payable	$	52,933
Accounts payable		89,910
Accrued payroll		130,057
Accrued compensated absences		81,446
Other accrued expenses		4,052
Total current liabilities		358,398
NOTES PAYABLE, less current maturies shown above		93,684
NET ASSETS:		
Unrestricted		4,265,598
Temporarily restricted		322,047
Permanently restricted		380,000
		4,967,645
	$	5,419,727

(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, 2011

UNRESTRICTED NET ASSETS, REVENUES, GAINS, AND OTHER SUPPORT:		
Federal grants	$	453,815
State of Tennessee grants		519,485
TennCare grants		381,923
Local government grants		208,084
Program revenue (net) -		
TennCare Capitated		494,935
TennCare Fee for Service		1,228,400
TennCare Housing		623,685
Cover TN		2,239
Medicare		144,909
Private Pay and Sliding Fee		29,804
Client rent/Section 8		36,159
Private insurance		10,134
United Way contribution		38,289
Donations		5,779
Other revenue		8,385
Interest income		1,036
Total operating revenue		4,187,061
Net assets released from restrictions		1,462,776
Total revenues, gains and other support		5,649,837

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

EXPENSES:	
Program services -	
C&A outpatient	375,780
C&A case management	216,021
Homeless outreach	31,218
B.A.S.I.C. grant	34,693
Adult outpatient	763,482
Level 1 case management	550,231
Crisis response team	400,935
Independent living assistance	4,604
Peer support	85,580
Long-term support	230,374
Supportive housing services	378,324
Mitchell home	182,745
Creekview duplexes	19,638
Total program services	3,273,625
Support services -	
General and administrative	881,555
Capital campaign	136,644
Total support services	1,018,199
Total expenses	4,291,824
Excess of revenues over expenses and increase in unrestricted net assets	1,358,013
TEMPORARILY RESTRICTED NET ASSETS:	
United Way contribution	35,679
Capital campaign donations	43,294
Interest earned on capital campaign funds	546
Net assets released from restrictions	(1,462,776)
Decrease in temporarily restricted net assets	(1,383,257)
DECREASE IN NET ASSETS	(25,244)
NET ASSETS:	
Beginning	4,992,889
Ending	$ 4,967,645

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

FORTWOOD CENTER, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Decrease in net assets	$ (25,244)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities -	
Depreciation and amortization	72,751
Bad debts	38,000
Net (increase) decrease in operating assets -	
Receivables	(4,508)
Pledge receivables	77,280
Prepaid expenses	(1,828)
Net increase (decrease) in operating liabilities -	
Accounts payable	36,023
Accrued expenses	2,517
Net cash provided by operating activities	194,991
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(1,334,725)
Net withdrawals from capital campaign accounts	1,241,079
Net cash used by investing activities	(93,646)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on notes payable	(54,609)
NET INCREASE IN CASH AND CASH EQUIVALENTS	46,736
CASH:	
Beginning	1,766,325
Ending	$ 1,813,061
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 9,188

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

FORTWOOD CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	Program Services						
	C&A Outpatient	C&A Case Management	Homeless Outreach	B.A.S.I.C. Grant	Adult Outpatient	Adult Case Management	Crisis Response Team
EXPENSES:							
Salaries and wages	$ 281,148	$ 155,234	$ 19,947	$ 26,553	$ 556,857	$ 363,913	$ 272,869
Employee benefits	23,332	14,193	3,273	4,454	45,733	54,480	15,617
Payroll taxes	21,082	13,663	1,505	2,029	40,487	29,352	21,702
Professional fees	-	-	-	-	729	474	118
Contract labor	1,245	14	-	-	40,552	22,043	4,132
Supplies	4,359	966	-	879	5,436	3,738	3,971
Telephone and communications	6,914	3,111	353	180	10,892	9,637	11,635
Postage and shipping	655	404	-	1	884	652	100
Occupancy	6,792	1,705	280	-	11,008	6,877	4,055
Utilities	10,933	2,222	384	-	15,028	9,344	5,246
Equipment rental and maintenance	4,184	1,232	243	-	4,151	3,019	3,953
Printing and publications	201	408	-	-	2,425	2,447	323
Travel	3	12,157	182	597	2,623	23,344	3,172
Auto expense	-	-	-	-	-	-	5,130
Conferences and meetings	1,047	1,237	-	-	290	849	2,235
Interest	-	-	-	-	4,453	2,614	1,799
Insurance	-	-	-	-	-	-	-
Grants and awards	-	-	-	-	-	-	43,329
Specific assistance to individuals	-	36	5,051	-	4,962	628	380
Other expenses	1,648	286	-	-	455	443	67
Bad debt expense	6,800	7,200	-	-	10,200	12,000	-
Depreciation and amortization	5,437	1,953	-	-	6,317	4,377	1,102
	$ 375,780	$ 216,021	$ 31,218	$ 34,693	$ 763,482	$ 550,231	$ 400,935

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

FORTWOOD CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	Program Services						
	Independent Living Assistance	Peer Support	Long-term Support	Supportive Housing Services	Mitchell Home	Creekview Duplexes	Total Program Services
EXPENSES:							
Salaries and wages	$ -	$ 40,015	$ 147,093	$ -	$ 125,875	1,149	$ 1,990,653
Employee benefits	-	4,457	22,548	-	5,906	206	194,199
Payroll taxes	-	3,193	11,260	-	10,452	83	154,808
Professional fees	-	-	-	-	100	3	1,424
Contract labor	-	-	7,941	-	-	20	75,947
Supplies	-	1,307	8,531	-	2,800	1	31,988
Telephone and communications	-	887	5,378	-	664	431	50,082
Postage and shipping	-	-	79	-	-	-	2,775
Occupancy	-	7,472	2,013	-	6,025	4,708	50,935
Utilities	-	5,855	3,402	-	8,729	7,636	68,779
Equipment rental and maintenance	-	521	1,583	-	2,553	24	21,463
Printing and publications	-	-	540	-	87	1	6,432
Travel	-	327	4,539	-	-	22	46,966
Auto expense	-	9,482	3,449	-	2,720	-	20,781
Conferences and meetings	-	55	-	-	130	-	5,843
Interest	-	113	-	-	25	15	9,019
Insurance	-	-	3,043	-	-	-	3,043
Grants and awards	-	-	-	378,324	-	-	421,653
Specific assistance to individuals	4,604	5,493	4,449	-	7,076	12	32,691
Other expenses	-	293	310	-	282	174	3,958
Bad debt expense	-	-	-	-	1,800	-	38,000
Depreciation and amortization	-	6,110	4,216	-	7,521	5,153	42,186
	$ 4,604	$ 85,580	$ 230,374	$ 378,324	$ 182,745	$ 19,638	$ 3,273,625

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

FORTWOOD CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	Support Services		
	General and Administrative	Capital Campaign	Total Expenses
EXPENSES:			
Salaries and wages	$ 435,983	$ -	$ 2,426,636
Employee benefits	49,753	-	243,952
Payroll taxes	37,655	-	192,463
Professional fees	45,975	1,706	49,105
Contract labor	1,289	-	77,236
Supplies	29,063	102,221	163,272
Telephone and communications	13,433	-	63,515
Postage and shipping	1,256	-	4,031
Occupancy	22,110	18,479	91,524
Utilities	17,101	3,865	89,745
Equipment rental and maintenance	72,031	10,346	103,840
Printing and publications	3,372	-	9,804
Travel	5,566	-	52,532
Auto expense	3,999	-	24,780
Conferences and meetings	4,476	-	10,319
Interest	169	-	9,188
Insurance	72,587	-	75,630
Grants and awards	-	-	421,653
Specific assistance to individuals	56	-	32,747
Other expenses	35,116	27	39,101
Bad debt expense	-	-	38,000
Depreciation and amortization	30,565	-	72,751
	$ 881,555	$ 136,644	$ 4,291,824

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

(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 generally accepted accounting principles. 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 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. Actual results could differ from those estimates.

(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.

(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 activites 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, 2011, follows. Investments are stated at fair market value.

Cash on hand and in bank	$	225
Cash in interest-bearing accounts		1,812,751
Cash and cash equivalents	$	1,812,976

(3) ACCOUNTS RECEIVABLE - GRANTS:

Accounts receivable from grants and contracts consist of amounts earned in accordance with grant and contract terms, but not received at June 30, 2011. A summary of accounts receivable from grants and contracts at June 30, 2011, follows:

U.S. Department of Housing and Urban Development:		
Supportive Housing Program	$	69,324
Tennessee Department of Mental Health and Developmental Disabilities:		
Block grant		121,623
Total grants receivable	$	190,947

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.

Unconditional promises to give are as follows:

Receivable in less than one year	$ 107,980
Receivable in one year or more	50,000
Total unconditional promises to give	$ 157,980

(5) PROPERTY AND EQUIPMENT:

A summary of property and equipment at June 30, 2011, follows:

		Estimated Useful Lives
Land ($380,000 permanently restricted)	$ 975,000	Nondepreciable
Building and leasehold improvements	2,157,479	5-39 Years
Furniture and equipment	505,725	5-10 Years
Transportation equipment	155,413	4-5 Years
	3,793,617	
Less accumulated depreciation	(865,359)	
Property and equipment, net	$ 2,928,258	

Depreciation and amortization expense totaled $72,751 for the year ended June 30, 2011.

(6) LONG-TERM DEBT:

A summary of the long-term debt at June 30, 2011 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 $465,192 at June 30, 2011	$ 146,617
Less current portion	52,933
	$ 93,684

(6) LONG-TERM DEBT (Continued):

Scheduled principal repayments on long-term debt for the next five years are as follows:

For the year ending 2012	52,933
2013	60,940
2014	32,744
	$ 146,617

(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, 2011, were:

Duplex Apartment Restriction	$ 88,000
FHLB Grant administration	198,368
United Way Promise to Give	35,679
	$ 322,047

(7) NET ASSETS (Continued):

Permanently Restricted Net Assets –

The State of Tennessee deeded to the Center the land it occupies 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.

(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, 2011, was $84,489.

(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.

TennCare –

Revenue from TennCare programs accounted for approximately 65% of the Center's revenues for the fiscal year ending June 30, 2011.

(9) COMMITMENTS AND CONTINGENCIES (Continued):

Litigation –

The Center is involved in various claims and lawsuits arising in the normal course of business. Management believes that any financial responsibility that may be incurred in settlement of such claims and lawsuits would not be material to the Center's financial position.

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 2008, 2009 and 2010 are subject to examination by the IRS, generally for 3 years after they were filed.

(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, 2011, was as follows:

Medicare	10%
TennCare	76
Patients and others	14
	100%

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, 2011 follows:

	Bank Balance
Insured by the Federal Deposit Insurance Corporation	$ 1,167,293
Collateralized by bank securities	269,987
Uninsured and uncollateralized, covered by SIPC	301,094
Total cash deposits	$ 1,738,374

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:

The Center noted no transactions that would provide evidence about material transactions that did not exist at the balance sheet date but arose subsequently, through the date these financial statements were available to be issued March 15, 2012.

SUPPLEMENTARY DATA

FORTWOOD CENTER, INC.
SCHEDULE 1 - SCHEDULE OF PROGRAM AND SUPPORTING SERVICES ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Program Services						
	C&A Outpatient	C&A Case Management	Homeless Outreach	B.A.S.I.C. Grant	Adult Outpatient	Adult Case Management	Crisis Response Team
UNRESTRICTED NET ASSETS, REVENUES, GAINS, AND OTHER SUPPORT:							
Federal grants	$ -	$ -	$ -	40,016	$ -	$ -	$ -
State of Tennessee grants	369	69	36,482	-	189,277	103,837	95,120
TennCare grants	-	-	-	-	-	-	381,923
Local government grants	2,939	-	-	-	205,145	-	-
Program revenue (net) -							
TennCare Capitated	77	110,105	-	-	4,200	380,553	-
TennCare Fee for Service	258,999	240,344	-	-	200,808	528,249	-
TennCare Housing	-	-	-	-	-	-	-
Cover TN	2,177	-	-	-	62	-	-
Medicare	68	-	-	-	144,841	-	-
Private Pay and Sliding Fee	5,657	(30)	-	-	24,076	121	-
Client rent/Section 8	-	-	-	-	-	-	-
Private insurance	4,374	-	-	-	5,760	-	-
United Way contribution	19,654	-	-	-	18,635	-	-
Donations	-	-	-	-	-	-	-
Other revenue	2,437	-	-	-	5,948	-	-
Interest income	-	-	-	-	-	-	-
Total operating revenue	296,751	350,488	36,482	40,016	798,752	1,012,760	477,043
Net assets released from restrictions	17,358	-	-	-	18,321	-	-
	314,109	350,488	36,482	40,016	817,073	1,012,760	477,043
EXPENSES:							
Total Program Expenses	375,780	216,021	31,218	34,693	763,482	550,231	400,935
Allocation of supporting services expenses	109,577	63,031	9,080	10,138	222,681	160,443	105,258
	485,357	279,052	40,298	44,831	986,163	710,674	506,193
REVENUES, GAINS, AND OTHER SUPPORT OVER (UNDER) EXPENSES	$ (171,248)	$ 71,436	$ (3,816)	$ (4,815)	$ (169,090)	$ 302,086	$ (29,150)

FORTWOOD CENTER, INC.
SCHEDULE 1 - SCHEDULE OF PROGRAM AND SUPPORTING SERVICES ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Program Services						
	Independent Living Assistance	Peer Support	Long-term Support	Supportive Housing Services	Mitchell Home	Creekview Duplexes	Program Total
UNRESTRICTED NET ASSETS, REVENUES, GAINS, AND OTHER SUPPORT:							
Federal grants	$ 4,927	$ -	$ 270,224	$ -	$ 138,648	$ -	$ 453,815
State of Tennessee grants	-	94,331	-	-	-	-	519,485
TennCare grants	-	-	-	-	-	-	381,923
Local government grants	-	-	-	-	-	-	208,084
Program revenue (net) -							
TennCare Capitated	-	-	-	-	-	-	494,935
TennCare Fee for Service	-	-	-	-	-	-	1,228,400
TennCare Housing	-	-	-	474,500	149,185	-	623,685
Cover TN	-	-	-	-	-	-	2,239
Medicare	-	-	-	-	-	-	144,909
Private Pay and Sliding Fee	-	-	-	-	(20)	-	29,804
Client rent/Section 8	-	-	-	-	13,052	23,107	36,159
Private insurance	-	-	-	-	-	-	10,134
United Way contribution	-	-	-	-	-	-	38,289
Donations	-	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-	8,385
Interest income	-	-	-	-	-	-	-
Total operating revenue	4,927	94,331	270,224	474,500	300,865	23,107	4,180,246
Net assets released from restrictions	-	-	-	-	26,033	-	61,712
	4,927	94,331	270,224	474,500	326,898	23,107	4,241,958
EXPENSES:							
Total Program Expenses	4,604	85,580	230,374	378,324	182,745	19,638	3,273,625
Allocation of supporting services expenses	441	24,948	67,174	49,632	53,334	5,818	881,555
	5,045	110,528	297,548	427,956	236,079	25,456	4,155,180
REVENUES, GAINS, AND OTHER SUPPORT OVER (UNDER) EXPENSES	$ (118)	$ (16,197)	$ (27,324)	$ 46,544	$ 90,819	$ (2,349)	$ 86,778

FORTWOOD CENTER, INC.
SCHEDULE 1 - SCHEDULE OF PROGRAM AND SUPPORTING SERVICES ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Support Services		
	General and Administrative	Capital Campaign	Total
UNRESTRICTED NET ASSETS, REVENUES, GAINS, AND OTHER SUPPORT:			
Federal grants	$ -	$ -	$ 453,815
State of Tennessee grants	-	-	519,485
TennCare grants	-	-	381,923
Local government grants	-	-	208,084
Program revenue (net) -			
TennCare Capitated	-	-	494,935
TennCare Fee for Service	-	-	1,228,400
TennCare Housing	-	-	623,685
Cover TN	-	-	2,239
Medicare	-	-	144,909
Private Pay and Sliding Fee	-	-	29,804
Client rent/Section 8	-	-	36,159
Private insurance	-	-	10,134
United Way contribution	-	-	38,289
Donations	5,779	-	5,779
Other revenue	-	-	8,385
Interest income	1,036	-	1,036
Total operating revenue	6,815	-	4,187,061
Net assets released from restrictions	-	1,401,064	1,462,776
	6,815	1,401,064	5,649,837
EXPENSES:			
Total Program Expenses	881,555	136,644	4,291,824
Allocation of supporting services expenses	(881,555)	-	-
	-	136,644	4,291,824
REVENUES, GAINS, AND OTHER SUPPORT OVER (UNDER) EXPENSES	$ 6,815	$ 1,264,420	$ 1,358,013

FORTWOOD CENTER, INC.
SCHEDULE 2 - SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Grant/ Project Number	Receivable Balance July 1, 2010	Cash Receipts	Federal Expenditures	Receivable Balance June 30, 2011
U.S. Department of Housing & Urban Development:						
Supportive Housing Program (7/09-6/10)	14.235	TN37B700007	$ 57,770	$ 57,770	$ -	$ -
Supportive Housing Program (7/10-6/11)	14.235	TN0007B4J000802	-	69,324	138,648	69,324
U.S. Department of Health & Human Services:						
Passed through Tennessee Department of Mental Health and Development Disabilities:						
Block Grants for Community Mental Health Services -						
B.A.S.I.C. (7/09-6/10)	93.958	GR-10-28052	6,602	6,602	-	-
B.A.S.I.C. (7/10-6/11)	93.958	GR-11-31628	-	33,783	40,016	6,233
Drop-In Center (7/09-6/10)	93.958	GR-102-28663-01	13,409	13,409	-	-
Intensive Long-Term Support (7/10-6/11)	93.958	GF-11-32294	-	221,468	270,224	48,756
Community Targeted Transitional Support (7/10-6/11)	93.958	GF-11-32292	-	4,233	4,927	694
			$ 77,781	$ 406,589	$ 453,815	$ 125,007

FORTWOOD CENTER, INC.
SCHEDULE 3 - SCHEDULE OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Grantor/ Pass-through Grantor Agency/ Program Title	Grant Number	Receivable Balance July 1, 2010	Cash Receipts	Federal Expenditures	Receivable Balance June 30, 2011
Tennessee Department of Mental Health and Developmental Disabilities:					
Block Grants for Community Mental Health Services -					
Independent Living Assistance (7/09-6/10)	GR-10-28769	$ 930	$ 930	$ -	$ -
C&Y Homeless Outreach (7/09-6/10)	GR-10-29599	10,983	10,983	-	-
C&Y Homeless Outreach (7/10-7/11)	GR-10-29599	-	34,278	36,482	2,204
Intensive Long-term Support Services (7/09-6/10)	GR-10-28870-01	52,973	52,973	-	-
Drop-In Center Transportation (7/09-6/10)	GR-1132734	-	80,153	94,331	14,178
Mobile Crisis Services (7/09-6/10)	GR-1028669	15,853	15,853	-	-
Mobile Crisis Services (7/10-6/11)	GR-1028669	-	79,267	95,120	15,853
Mental Health Safety Net Program (7/09-6/10)	GR-10-28760-03	21,066	22,496	1,430	-
Mental Health Safety Net Program (7/10-6/11)	GR-10-28760-03	-	258,417	292,122	33,705
		$ 101,805	$ 555,350	$ 519,485	$ 65,940

FORTWOOD CENTER, INC
NOTES TO SCHEDULES OF FEDERAL AND STATE AWARDS
JUNE 30, 2011

(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 A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

JOHNSON HICKEY MURCHISON
CERTIFIED PUBLIC ACCOUNTANTS • SINCE 1977

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, 2011, and have issued our report theron dated March 15, 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

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 purposes of expressing an 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 Fortwood Center, Inc.'s internal control over financial reporting.

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, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses (Finding 2011-1) to be a material weakness.

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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*.

Fortwood Center, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Fortwood Center, Inc.'s response and, accordingly, we express no opinion on it.

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, Hickey & Murchison, P.C.

Chattanooga, Tennessee
March 15, 2012

FORTWOOD CENTER, INC
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011

PRIOR YEAR FINDINGS

None

CURRENT YEAR FINDINGS AND RESPONSES

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.

Criteria: 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.

Cause: 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.

Effect: 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.

Views of Responsible Officials and Planned Corrective Actions: Client agrees with the finding and initiated an investigation to ascertain the extent of the errors. Client believes the errors were isolated to one employee who had already been terminated for noncompliance with deadlines and procedures. Client issued refunds to the effected insurance carriers. Internal control procedures were immediately changed to the recommendations by the auditor. Subsequent to year end, the Center has changed to an electronic medical record system which will not allow the Patient Billing to generate a charge until the supporting client contact sheet is completed.