

**TFI COMMUNITY SERVICES, INC. and AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended June 30, 2012 and 2011

With Supplemental Information and A-133 Section



Mayer Hoffman McCann P.C.

An Independent CPA Firm

220 W. Douglas, Suite 300

Wichita, Kansas 67202

316-265-5600 ph

316-265-8021 fx

www.mhm-pc.com

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors

TFI Community Services, Inc. and Affiliates

We have audited the accompanying consolidated statement of financial position of TFI Community Services, Inc. and Affiliates (the Organization) as of June 30, 2012, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of TFI Community Services, Inc. and Affiliates as of June 30, 2011, were audited by other auditors whose report dated December 26, 2011, expressed an unqualified opinion on those statements.

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 consolidated 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TFI Community Services, Inc. and Affiliates as of June 30, 2012, and the changes in its net assets and 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 November 9, 2012, on our consideration of TFI Family Services, Inc.'s internal control over financial reporting and our tests of their 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 results of our audit.

*Mayer Hoffman McCann P.C.*

Wichita, Kansas

November 9, 2012

TFI COMMUNITY SERVICES, INC. AND AFFILIATES

Statements of Financial Position  
June 30,

	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<u>Assets</u>				
Current assets:			Current liabilities:	
Cash and cash equivalents	\$ 13,560,955	\$ 11,824,273	Accounts payable and accrued liabilities	\$ 3,492,753
Certificates of deposit	827,766	836,935	Wages payable	862,159
Accounts receivable, less allowance for doubtful accounts (\$0 in 2012 and \$0 in 2011)	4,962,390	4,959,731	Payroll taxes payable	330,647
Grants receivable	490,958	57,125	Line of credit	-
Prepaid expenses	746,344	134,509	Current maturities of long-term debt	485,471
Total current assets	<u>20,588,413</u>	<u>17,812,573</u>	Total current liabilities	<u>5,171,030</u>
Property and equipment:			Long-term liabilities:	
Buildings and land	13,039,585	12,401,382	Long-term debt, less current maturities	5,659,824
Equipment	6,307,884	4,416,981	Accrued residual cost	3,123,362
Less: Accumulated depreciation	19,347,469	16,818,363	Total long-term liabilities	<u>8,783,186</u>
Work in progress	5,388,992	4,160,629	Total liabilities	<u>13,954,216</u>
Net property and equipment	<u>13,958,477</u>	<u>13,854,381</u>		<u>13,783,722</u>
Other assets:			Net assets:	
Pledged certificate of deposit	2,018,215	2,016,467	Unrestricted:	
Other assets	192,175	338,878	Undesignated	20,790,414
Goodwill	269,973	319,973	Board designated - insurance reserve	2,282,623
Restricted cash	8,639	8,739	Total unrestricted	23,073,037
Total other assets	<u>2,489,002</u>	<u>2,684,057</u>	Temporarily restricted	8,639
Total assets	<u>\$ 37,035,892</u>	<u>\$ 34,351,011</u>	Total net assets	<u>23,081,676</u>
			Total liabilities and net assets	<u>\$ 37,035,892</u>
				<u>\$ 34,351,011</u>

The accompanying summary of significant accounting policies and notes are an integral part of these statements.

**TFI COMMUNITY SERVICES, INC. AND AFFILIATES**

Statements of Activities  
For the Years Ended June 30,

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and other support:						
Revenue:						
Program	\$ 60,789,818	\$ -	\$ 60,789,818	\$ 60,858,665	\$ -	\$ 60,858,665
Grant	1,316,748	-	1,316,748	452,793	-	452,793
Other	1,112,300	-	1,112,300	374,461	-	374,461
Interest income	37,514	-	37,514	63,625	-	63,625
Contributions	16,709	-	16,709	12,105	-	12,105
Net assets released from restrictions	100	(100)	-	-	-	-
Total revenue and other support	<u>63,273,189</u>	<u>(100)</u>	<u>63,273,089</u>	<u>61,761,649</u>	<u>-</u>	<u>61,761,649</u>
Program expenses:						
Reintegration	29,140,407	-	29,140,407	28,675,639	-	28,675,639
Foster care	14,559,879	-	14,559,879	14,753,007	-	14,753,007
Psychiatric residential treatment facility	3,790,253	-	3,790,253	3,397,009	-	3,397,009
Child care	2,200,233	-	2,200,233	2,383,450	-	2,383,450
Independent living	961,837	-	961,837	1,040,205	-	1,040,205
Grant	1,022,652	-	1,022,652	280,340	-	280,340
Other program expenses	2,290,562	-	2,290,562	2,829,277	-	2,829,277
Administration and support expenses	6,792,879	-	6,792,879	5,636,001	-	5,636,001
Total expenses	<u>60,758,702</u>	<u>-</u>	<u>60,758,702</u>	<u>58,994,928</u>	<u>-</u>	<u>58,994,928</u>
Change in net assets	2,514,487	(100)	2,514,387	2,766,721	-	2,766,721
Net assets at beginning of year	\$ 20,558,550	8,739	\$ 20,567,289	17,791,829	8,739	17,800,568
Net assets at end of year	<u>\$ 23,073,037</u>	<u>\$ 8,639</u>	<u>\$ 23,081,676</u>	<u>\$ 20,558,550</u>	<u>\$ 8,739</u>	<u>\$ 20,567,289</u>

The accompanying summary of significant accounting policies and notes are an integral part of these statements.

TFI COMMUNITY SERVICES, INC. AND AFFILIATES

Statements of Cash Flows  
For the Years Ended June 30,

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,514,387	\$ 2,766,721
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,410,558	990,068
Gain on sale of fixed assets	(115,480)	(20,421)
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable and grants receivable	(436,492)	(126,247)
Prepaid expenses	(611,835)	132,384
Other assets	146,703	143,315
Increase (decrease) in:		
Accounts payable and accrued liabilities	141,307	365,770
Wages payable	(837,676)	16,087
Payroll taxes payable	266,744	-
Accrued residual cost	1,041,121	1,041,121
Total adjustments	<u>1,004,950</u>	<u>2,542,077</u>
Net cash provided by operating activities	<u>3,519,337</u>	<u>5,308,798</u>
Cash flows from investing activities:		
Purchase of property and equipment	(1,464,657)	(2,141,385)
Proceeds from sale of property and equipment	115,480	30,035
Purchase of certificates of deposit	7,421	(11,650)
Change in restricted cash	100	-
Net cash used in investing activities	<u>(1,341,656)</u>	<u>(2,123,000)</u>
Cash flows from financing activities:		
Net borrowings (payments) on line of credit	(1,249,342)	1,249,342
Borrowings on long-term debt	1,250,000	428,000
Payments on long-term debt	(441,657)	(1,645,758)
Net cash provided by (used in) financing activities	<u>(440,999)</u>	<u>31,584</u>
Net change in cash and cash equivalents	1,736,682	3,217,382
Cash and cash equivalents at beginning of year	<u>11,824,273</u>	<u>8,606,891</u>
Cash and cash equivalents at end of year	<u>\$ 13,560,955</u>	<u>\$ 11,824,273</u>
Supplemental disclosures of cash flow information:		
Interest paid	<u>\$ 397,934</u>	<u>\$ 449,977</u>

The accompanying summary of significant accounting policies and notes are an integral part of these statements.

## TFI Community Services, Inc. And Affiliates

### Summary of Significant Accounting Policies

#### Nature of the Operations and Consolidation

The consolidated financial statements include the accounts of TFI Community Services, Inc. (Community) and its affiliates: TFI Family Services, Inc. (Family); Pathway Family Services, Inc. (Pathway); TFI Community Child Care, Inc. (TFI CCC); Kansas Family and Children, Inc. (KS F&C); and KYDS, Inc. (KYDS).

Community is a not-for-profit corporation organized to support the activities of its affiliates.

Family is a not-for-profit corporation and an affiliate of Community. Family provides a wide spectrum of youth services in Kansas, including reintegration/foster care programs and behavioral health programs.

Pathway is a not-for-profit corporation and an affiliate of Community. Pathway provides family living experience along with supervision, structure, and guidance for children in need of care.

TFI CCC is a not-for-profit corporation and an affiliate of Community. TFI CCC was formed to establish and operate daycare programs for children in the general public.

KS F&C and KYDS are for-profit corporations and affiliates of Community. KS F&C and KYDS were formed to engage in any act or activity for which corporations may be organized under Kansas General Corporation Code.

#### Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC 958), *Financial Statements of Not-for-Profit Organizations*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets based on donor restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Board of Directors may designate a portion of unrestricted net assets for specific purposes. All funds, of which, the Board of Directors has discretionary control, have been included within unrestricted net assets. A portion of unrestricted net assets was designated by the Board of Directors in the current year to be utilized as an insurance reserve. See note 10 regarding temporarily restricted net assets.

#### Basis of Accounting

The consolidated financial statements of Community and Affiliates (the Organization) have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues and expenses are recognized and recorded when earned or incurred.

#### Cash and Cash Equivalents

The Organization considers all cash, money market and highly-liquid debt instruments purchased with initial maturities of three months or less to be cash equivalents.

At June 30, 2012 and 2011 money market funds consist of an Edward Jones Money market Fund.

## TFI Community Services, Inc. And Affiliates

### Summary of Significant Accounting Policies

#### Certificates of Deposit

Certificates of deposit are stated at carrying value. The fair value of such instruments, using an income approach, was determined to approximate carrying value, given the short term nature of these instruments using level 2 fair value methods.

#### Accounts and Grants Receivable

Accounts and grants receivable represent amounts due from customers and granting agencies. All amounts are expected to be collected within one year. Management periodically reviews these receivables and charges off those amounts considered to be uncollectible. Management believes the allowance for doubtful accounts is sufficient to cover any potential bad debts upon an analysis of the doubtful accounts and historical experience.

#### Property and Equipment

Property and equipment are stated at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives range from three to seven years for equipment and forty years for buildings and material improvements. Purchases under \$1,500 are expensed currently. Management annually reviews fixed assets to determine whether carrying values have been impaired. As of June 30, 2012 and 2011, no impairment has been recognized. Depreciation expense was \$1,410,558 and \$990,068 for the years ended June 30, 2012 and 2011, respectively.

#### Allocated Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the financial statements. Expenses by function have been allocated among program and supporting services classifications on the basis of the number of employees and participants and on estimates made by the Organization's management.

#### Donated Material and Services

The Organization records the value of donated goods or services when there is an objective basis available to measure their value. Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at the date of receipt. No amounts have been reflected in the statements for donated services as no objective basis is available to measure the value of such services.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to take 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

## TFI Community Services, Inc. And Affiliates

### Summary of Significant Accounting Policies

#### Advertising

Advertising expense is charged to operations in the year incurred.

#### Income Taxes

Community, Family, Pathway, and TFI CCC are not-for-profit organizations and are generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Income from unrelated activities is subject to income tax under the Internal Revenue Code. KS F&C and KYDS are subject to federal and state income taxes and account for income taxes using the asset and liability approach for financial accounting reporting.

The Organization's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the financial statements during the period which, based on all available evidence, management believes it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by the Organization. The Organization did not have any material uncertain tax positions as of June 30, 2012 and 2011.

The Organization files income tax returns in the U.S. Federal and Kansas jurisdictions. The Organization is generally no longer subject to federal and state income tax examinations by taxing authorities for years before 2008. There are currently no examinations of the Organization's income tax returns in progress.



# TFI Community Services, Inc. And Affiliates

## Notes to Financial Statements

**1. Cash and Restricted Cash**

The Organization maintains cash and interest-bearing deposits with banking institutions. Such balances are insured by the Federal Deposit Insurance Corporation; however balances may occasionally exceed the insured amount.

The Organization has restricted funds consisting of a grant for music lessons and musical instruments rental for foster children in Crawford County.

**2. Purchases of Service Contract**

Family has entered into a provider agreement with the Kansas State Department of Social and Rehabilitation Services (SRS) and other lead agencies for the provision of youth services throughout the state of Kansas. Family is a fee for services agency.

Revenues from SRS related to these programs equal the following percentages of adjusted total support and revenue.

	<u>2012</u>	<u>2011</u>
SRS	93%	92%
St. Francis	1	2
United Methodist Youthville	1	1
Medicaid	1	1
Kaw Valley	1	1
Grants and Other	3	3

Pathway operates a Psychiatric Residential Treatment Facility (PRTF) and a program called Teens Reaching Adult Independent Living (TRAIL) which provides onsite case management for supervised apartment living through a Transitional Living Program (TLP) and Community Integration Program (CIP).

These programs receive revenue from the following services:

	<u>2012</u>			<u>2011</u>		
	<u>PRTF</u>	<u>TRAIL</u>	<u>Foster Care</u>	<u>PRTF</u>	<u>TRAIL</u>	<u>Foster Care</u>
Medicaid	80%	-	-	62%	-	-
Juvenile Justice Authority	-	6	-	-	19	-
Consulting	-	-	-	-	-	2
United Methodist Youthville	-	1	-	-	1	-
Other	<u>1</u>	<u>1</u>	<u>1</u>	<u>4</u>	<u>2</u>	<u>1</u>
	<u>81%</u>	<u>8%</u>	<u>1%</u>	<u>66%</u>	<u>22%</u>	<u>3%</u>

## TFI Community Services, Inc. And Affiliates

### Notes to Financial Statements

#### 3. State of Kansas Contract

In July 2009, Family entered into contracts with the State of Kansas and SRS for reintegration/foster care/adoption for region one and region three. Under the contracts, Family received a predetermined fixed amount each month, regardless of the number of children under care, plus an additional amount for each child under care. The contracts are four-year contracts with two additional two-year extensions.

Revenue under the contracts is calculated as follows for the years ended June 30:

	Amount Per Month:		
	2011	2012	2013
Reintegration/ Foster Care/Adoption-Region 1:			
Per child	\$ 1,503	\$ 1,503	\$ 1,526
Fixed monthly payment	608,841	608,841	616,820
Reintegration/Foster Care/Adoption-Region 3:			
Per child	\$ 1,459	\$ 1,459	\$ 1,481
Fixed monthly payment	741,167	741,167	750,880

A significant amount of personnel time was spent in fiscal year 2009 preparing for commencement of the new contracts. Management calculated the payroll costs associated with the preparation for the new contracts and did not expense these amounts in fiscal year 2009. Those amounts have been deferred and are being amortized and expensed over the initial term of the contracts, which is four years. The amount of deferred costs remaining at June 30, 2012 and 2011 is \$139,645 and \$279,290, and these amounts are included in other assets. Family expensed \$139,645 of these deferred costs for each of the years ended June 30, 2012 and 2011, which is included within program expenses.

#### 4. Leases

Family has entered into various operating leases for building and equipment. Future minimum rentals at June 30, 2012 for leases with a stated term are as follows:

2013	\$914,273
2014	-
2015	-
Total	\$914,273

The Organization had rental expense of \$913,977 and \$917,493 for June 30, 2012 and 2011, respectively.

## TFI Community Services, Inc. And Affiliates

### Notes to Financial Statements

#### 5. Line of Credit

Family has a line of credit dated July 1, 2011 from CoreFirst Bank & Trust for \$2,000,000. The line is secured by a certificate of deposit at CoreFirst Bank & Trust and matures in July 2013. The outstanding balance was \$0 and \$1,249,342 for June 30, 2012 and 2011, respectively.

#### 6. Long-Term Debt

Long term debt consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
6.5% mortgage to US Bank, due in 60 payments of \$5,628 (including principal and interest), final payment due November 2013, collateralized by essentially all assets of the Organization.	\$ 90,912	\$ 150,296
6.75% second mortgage to Bank of America, due in 120 payments of \$7,610 (including principal and interest), final payment due February 2016, collateralized by real estate in Topeka, Kansas.	66,107	149,743
Variable rate mortgage to Capital City Bank, currently 5.625%, due in 71 payments of \$25,507 (including principal and interest), final payment of outstanding principal and interest due June 2016 collateralized by real estate in Topeka, Kansas.	2,804,677	2,946,261
Variable rate mortgage to a bank, currently 5.625%, due in 107 payments of \$3,526 (including principal and interest), final payment of outstanding principal and interest due May 23, 2020, collateralized by real estate in Wichita, Kansas.	407,820	426,524
6.25% mortgage to Bank of America, due in 240 payments of \$8,284 (including principal and interest), final payment due May 2025, collateralized by real estate in Topeka, Kansas.	871,548	914,094
6.50% mortgage to Bank of America, due in 240 payments of \$6,740 (including principal and interest), final payment due February 2026, collateralized by real estate in Pittsburg, Kansas.	717,754	750,034
5.45% mortgage to Core First Bank and Trust, due in 120 payments of \$13,585 (including principal and interest), final payment due October 2021, collateralized by real estate in Kansas City and Lawrence, Kansas.	<u>1,186,477</u>	<u>-</u>
	6,145,295	5,336,952
Less: Current portion	<u>485,471</u>	<u>378,135</u>
Total long-term debt	<u>\$5,659,824</u>	<u>\$4,958,817</u>

## TFI Community Services, Inc. And Affiliates

### Notes to Financial Statements

#### 6. Long-Term Debt (continued)

The aggregate maturities on long-term debt are as follows:

Year Ending June 30:	
2013	\$ 485,471
2014	398,130
2015	392,823
2016	2,566,318
2017	253,015
Thereafter	<u>2,049,538</u>
Total	<u>\$ 6,145,295</u>

Interest cost incurred and charged to expense on long-term debt was \$403,819 and \$363,236 for the years ended June 30, 2012 and 2011, respectively.

#### 7. Employee Benefits

##### Cafeteria Plan

A cafeteria plan exists which allows employees to annually elect to contribute a portion of their pre-tax compensation to a plan which will provide them health and life insurance, employee child care reimbursement, and medical reimbursements. The plan is voluntary. No employer contributions were made to the plan.

##### 401(k) Plan

The Organization has a 401(k) plan for eligible employees. The Organization contributes 75% of an employee's contributions up to 6% of compensation. The Organization's contribution was \$380,248 and \$366,134 for the years ended June 30, 2012 and 2011, respectively.

##### 403(b) Plan

The Organization offers a 403(b) plan to employees. The employer does not contribute to the plan.

## TFI Community Services, Inc. And Affiliates

### Notes to Financial Statements

#### 8. Compensated Absences

The Organization's policy on paid leave permits full-time employees to earn leave time based on their position and length of service. The paid leave must be used by the individual employee's employment anniversary date.

Any unused paid leave at the employment anniversary date is transferred into a sick leave reserve pool, which can only be used for illness-related leave after all current paid leave is exhausted. Upon termination of employment, no compensation is paid for the unused paid leave or the sick leave reserve pool.

#### 9. Accrued Residual Cost

Under Family's contract with SRS, Family's responsibility for all families referred to their care during the contracts' terms continues for a twelve-month period after the contracts expire. Family has estimated the cost of this twelve-month period of responsibility and is accruing that cost over the lives of the contracts. At June 30, 2012, Family has accrued 75% of the estimated cost as they have completed three out of the four years of the four-year contracts.

#### 10. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the Pritchett Music Fund. Monies are restricted to use for music lessons and instrument rental for foster kids in Crawford County, Kansas.

#### 11. Contingencies

The Organization is involved in various legal proceedings and claims have arisen in the ordinary course of its business that have not been fully adjudicated. These actions, when finally concluded and determined, will not, in the opinion of management, have a material adverse effect upon the financial position or results of operations of the Organization.

Contracting agencies reserve the right to conduct additional audits of the Organization's programs which may result in modifications to amounts reported by the organization. However, management does not believe such audits would result in any modifications that would be material to the Organization's financial position at June 30, 2012 and 2011.

## TFI Community Services, Inc. And Affiliates

### Notes to Financial Statements

#### 12. Estimated Medical Costs

The Organization became self-insured for its medical plan for the year ended June 30, 2012. The plan provides coverage for all full-time regular status employees working at least 36 hours per week that have been employed by the Organization for 30 consecutive days, except for the employees of TFI Community Child Care, Inc., where the plan only provides coverage for the Child Care Directors. The plan provides two levels of stop loss: 1) a limit of \$75,000 per individual claim, and 2) an aggregate stop loss for the entire plan achieved through the purchase of re-insurance. The estimated health care plan liability is susceptible to significant change. The risk is mitigated by the purchase of stop loss insurance. Although management believes the Organization has adequately provided for all claims incurred in the accompanying financial statements, actual losses could differ from amounts provided in the current period and could result in material adjustments to future results of activities. The estimated liability recorded for medical claims at June 30, 2012 was \$145,606. The charge to operating expense for medical claims was \$1,524,585 for the year ended June 30, 2012.

#### 13. Subsequent Events

The Organization has evaluated subsequent events through November 9, 2012, the date at which the audited financial statements were available to be released. No matters were identified during this period that required disclosure in the financial statements.

SUPPLEMENTAL INFORMATION



Mayer Hoffman McCann P.C.

An Independent CPA Firm

220 W. Douglas, Suite 300

Wichita, Kansas 67202

316-265-5600 ph

316-265-8021 fx

www.mhm-pc.com

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors

### TFI COMMUNITY SERVICES, INC. and AFFILIATES

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of TFI Community Services, Inc. and Affiliates for the year ended June 30, 2012, as a whole. The accompanying SUPPLEMENTAL INFORMATION, which includes the schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the basic consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the accompanying SUPPLEMENTAL INFORMATION is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Mayer Hoffman McCann P.C.*

Wichita, Kansas

November 9, 2012



TFI COMMUNITY SERVICES, INC. and AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended June 30, 2012

Federal grantor / Pass-through grantor Program title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
<u>TFI Family Services, Inc.</u>			
Research and development cluster:			
<u>U.S. Department of Health and Human Services</u>			
<u>Pass-through program from:</u>			
University of Kansas Center for Research, Inc.:			
Child welfare research training or demonstration	93.648	FY 2011-063/FY 2011-067	\$ 742,200
Total research and development cluster			<u>742,200</u>
 <u>U.S. Department of Health and Human Services</u>			
<u>Pass-through program from:</u>			
State of Kansas - Kansas Governor Grants Program:			
Grants to states for access and visitation programs	93.597	12-SAVP-10/12-SAVP-04	<u>13,603</u>
Total from U.S. Department of Health and Human Services			<u>\$ 755,803</u>

TFI COMMUNITY SERVICES, INC. and AFFILIATES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2012

(1) Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of TFI Family Services, Inc. under programs of the federal government for the year ended June 30, 2012. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of TFI Community Services, Inc. and Affiliates it is not intended to and does not present the financial position, changes in net assets or cash flow of TFI Community Services, Inc. and Affiliates.

(2) Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Costs Principles for Non-Profit Organizations* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.



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316-265-8021 fx  
www.mhm-pc.com

**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

**TFI COMMUNITY SERVICES, INC. and AFFILIATES**

We have audited the consolidated financial statements of TFI Community Services, Inc. and Affiliates, which includes TFI Family Services, Inc. (the Organization) as of and for the year ended June 30, 2012 and have issued our report thereon dated November 9, 2012. We conducted our audit in accordance with U.S. generally accepted auditing 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 TFI Family Services, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered TFI Family Services, 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 TFI Family Services, 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 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TFI Family Services, 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*.

Board of Directors  
TFI Community Services, Inc. and Affiliates  
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We noted certain other matters that we reported to management of TFI Community Services, Inc. and Affiliates in a separate letter dated November 9, 2012.

This report is intended solely for the information and use of the Board of Directors, management, others within the Organization, 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.

*Mayer Hoffman McCann P.C.*

Wichita, Kansas  
November 9, 2012



Mayer Hoffman McCann P.C.

An Independent CPA Firm

220 W. Douglas, Suite 300  
Wichita, Kansas 67202  
316-265-5600 ph  
316-265-8021 fx  
www.mhm-pc.com

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors

**TFI COMMUNITY SERVICES, INC. and AFFILIATES**

Compliance

We have audited TFI Community Services, Inc. and Affiliates' (which includes TFI Family Services, Inc.) (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2012. TFI Family Services, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of TFI Family Services, Inc.'s management. Our responsibility is to express an opinion on TFI Family Services, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about TFI Family Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on TFI Family Services, Inc.'s compliance with those requirements.

In our opinion, TFI Family Services, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control over Compliance

Management of TFI Family Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered TFI Family Services, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of TFI Family Services, Inc.'s internal control over compliance.

Board of Directors  
TFI Community Services, Inc. and Affiliates  
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*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, others within the Organization, 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.

*Maya Hoffman McCann P.C.*

Wichita, Kansas  
November 9, 2012

TFI COMMUNITY SERVICES, INC. and AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2012

A. Summary of Auditor's Results

*Financial Statements:*

Type of auditor's report issued - Unqualified Opinion

Internal control over financial reporting:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified?  Yes  None reported

Noncompliance material to financial statements - None Noted

*Federal Awards:*

Internal control over major programs:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified?  Yes  None reported

Type of auditor's report issued on compliance for major programs - Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?  Yes  No

Identification of major programs -

<u>CFDA Number</u> - 93.648	<u>Name of Federal Program / Cluster</u> - Child Welfare Research Training or Demonstration
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Dollar threshold used to distinguish between Type A and Type B programs - \$300,000

Auditee qualified as low-risk auditee - No

B. Financial Statement Findings None

C. Federal Award Findings / Questioned Costs None

TFI COMMUNITY SERVICES, INC. and AFFILIATES

SCHEDULE OF PRIOR AUDIT FINDINGS  
Year ended June 30, 2011

None