

**Independent Auditor's Report and
Consolidated Financial Statements
TFI Family Services, Inc. and Affiliates
June 30, 2019**

Contents

	Page
Independent Auditor's Report	1
Consolidated Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6
Supplementary Information	
Schedule of Expenditures of Federal Awards	17
Notes to Schedule of Expenditures of Federal Awards	18
Schedule of State of Oklahoma Awards	19
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 <i>Government Auditing Standards</i>	20
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	22
Schedule of Findings and Questioned Costs	24
Schedule of Prior Year Findings and Questioned Costs	25

Independent Auditor's Report

Board of Directors
TFI Family Services, Inc. and Affiliates

We have audited the accompanying consolidated financial statements of TFI Family Services, Inc. and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TFI Family Services, Inc. and Affiliates, as of June 30, 2019, and the change in their net assets and their cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the accompanying schedule of expenditures of State of Oklahoma awards, are presented for purposes of additional analysis and are not a required part of the 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 or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2020, on our consideration of TFI Family Services, Inc. and Affiliates' 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 solely 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 effectiveness of TFI Family Services, Inc. and Affiliates' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TFI Family Services, Inc. and Affiliates' internal control over financial reporting and compliance.

Wendling Noel Nelson & Johnson LLC

Topeka, Kansas
January 17, 2020

TFI Family Services, Inc. and Affiliates
Consolidated Statement of Financial Position
June 30, 2019

Assets

Current assets	
Cash and cash equivalents	\$ 1,527,459
Certificates of deposit	865,430
Accounts receivable, less allowance for doubtful accounts of \$155,000	5,942,163
Other receivables	105,000
Prepaid expenses	<u>53,797</u>
Total current assets	<u>8,493,849</u>
Property and equipment	
Buildings	10,074,817
Equipment	4,569,948
Less: Accumulated depreciation	<u>(6,916,717)</u>
Net depreciable property and equipment	7,728,048
Land	593,261
Work in progress	<u>35,992</u>
Net property and equipment	<u>8,357,301</u>
Other assets	
Investments	7,973,676
Other assets	<u>25,769</u>
	<u>7,999,445</u>
Total assets	<u><u>\$24,850,595</u></u>

Liabilities and Net Assets

Current liabilities	
Current maturities of long-term debt	\$ 262,446
Accounts payable and accrued liabilities	3,358,868
Wages payable	551,051
Payroll taxes payable	<u>26,640</u>
Total current liabilities	4,199,005
Long-term debt, net of current maturities	<u>1,688,643</u>
Total liabilities	<u>5,887,648</u>
Net assets	
Without donor restrictions	18,956,791
With donor restrictions	<u>6,156</u>
Total net assets	<u>18,962,947</u>
Total liabilities and net assets	<u><u>\$24,850,595</u></u>

The accompanying notes are an integral part of this statement.

TFI Family Services, Inc. and Affiliates
Consolidated Statement of Activities
Year ended June 30, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues, gains, and other support			
Revenues			
Program	\$ 34,080,073	\$ -	\$ 34,080,073
Grant	235,981		235,981
Other	96,830		96,830
Interest and dividend income	211,894		211,894
Investment gains	186,527		186,527
Donations	87,004		87,004
Net assets released from restriction used for operations	<u>1,803</u>	<u>(1,803)</u>	<u>-</u>
Total revenues, gains, and other support	<u>34,900,112</u>	<u>(1,803)</u>	<u>34,898,309</u>
Program expenses			
Foster care	12,701,600		12,701,600
Placement	12,672,920		12,672,920
Psychiatric Residential Treatment Facility	4,763,826		4,763,826
Grants	272,782		272,782
Other	<u>1,021,753</u>		<u>1,021,753</u>
Total program expenses	<u>31,432,881</u>	<u>-</u>	<u>31,432,881</u>
Supporting services expense			
Management and general	2,915,973		2,915,973
Fundraising and development	<u>80,015</u>		<u>80,015</u>
Total supporting services expense	<u>2,995,988</u>	<u>-</u>	<u>2,995,988</u>
Total expenses	<u>34,428,869</u>	<u>-</u>	<u>34,428,869</u>
Change in net assets	471,243	(1,803)	469,440
Net assets at beginning of year	<u>18,485,548</u>	<u>7,959</u>	<u>18,493,507</u>
Net assets at end of year	<u>\$ 18,956,791</u>	<u>\$ 6,156</u>	<u>\$ 18,962,947</u>

The accompanying notes are an integral part of this statement.

TFI Family Services, Inc. and Affiliates
Consolidated Statement of Cash Flows
Year ended June 30, 2019

Cash flows from operating activities	\$ 469,440
Change in net assets	\$ 469,440
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation	335,396
Change in unrealized gains on investments	(202,229)
Gain on sale of property and equipment	(14,123)
Bad debt expense	90,755
Changes in	
Accounts receivable	(3,546,702)
Prepaid expenses	47,909
Other assets	(60,430)
Accounts payable and accrued liabilities	2,519,171
Wages and payroll taxes payable	<u>159,586</u>
Net cash used by operating activities	<u>(201,227)</u>
Cash flows from investing activities	
Acquisition of property and equipment	(768,835)
Proceeds from sale of equipment	17,976
Net increase in certificates of deposit	(2,116)
Net increase in investments	<u>(1,627,061)</u>
Net cash used by investing activities	<u>(2,380,036)</u>
Cash flows from financing activities	
Proceeds from issuance of long-term debt	522,000
Principal payments on long-term debt	<u>(196,329)</u>
Net cash provided by financing activities	<u>325,671</u>
Net change in cash and cash equivalents	(2,255,592)
Cash and cash equivalents at beginning of year	<u>3,783,051</u>
Cash and cash equivalents at end of year	<u>\$ 1,527,459</u>
Supplemental disclosure of cash flow information	
Cash paid during the period for interest	<u>\$ 86,421</u>

The accompanying notes are an integral part of this statement.

TFI Family Services, Inc. and Affiliates
Notes to Consolidated Financial Statements
June 30, 2019

Note A - Description of Organization and Summary of Significant Accounting Policies

1. Nature of the operations and consolidation

The consolidated financial statements of TFI Family Services, Inc. and Affiliates (the Organization), include the accounts of TFI Family Services, Inc. (Family), and its affiliates: Pathway Family Services LLC (Pathway); TFI Family Connections LLC (Connections); Texas Family Initiative LLC (Texas); Kansas Family and Children, Inc. (KS F&C); KYDS, Inc. (KYDS); Mainstream Nonprofit Solutions, Inc. (MNSI); and Texas NP-Solutions, LLC (Texas-NP). All material intercompany balances have been eliminated in consolidation.

Family is a not-for-profit health agency exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code and qualifies for the 50-percent charitable contributions deduction for individual donors. Family provides a wide spectrum of youth services in Kansas, including foster care programs and attendant care programs.

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

Connections is a not-for-profit and an affiliate of Family. Connections provides foster care programs in Oklahoma.

Texas is a not-for-profit and an affiliate of Family. Texas provides foster care programs and child placing services in Texas.

KS F&C and KYDS are for-profit corporations and affiliates of Family. 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.

MNSI is a not-for-profit corporation organized to provide administrative services to enable nonprofits and small businesses to focus on their clients' needs. MNSI is an Administrative Service Organization (ASO) controlled by TFI. As an ASO, the Organization provides the following services to TFI: administrative, accounting, financial, human resources, information technology, intake and admissions, data, marketing, software, training, and other similar services.

Texas-NP is a Texas Limited Liability Company organized to provide administrative services for nonprofits and businesses in Texas. The company is 100 percent controlled by MNSI.

2. 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 two classes of net assets based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both.

TFI Family Services, Inc. and Affiliates
Notes to Consolidated Financial Statements - Continued
June 30, 2019

Note A - Description of Organization and Summary of Significant Accounting Policies - Continued

3. Basis of accounting

The financial statements of 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.

4. 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, excluding any such amounts classified as certificates of deposit, to be cash equivalents.

5. Allowance for doubtful accounts

Accounts receivable represent amounts due from customers and granting agencies. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and reviews individual accounts to estimate the appropriate allowance for doubtful accounts.

6. 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 \$5,000 are expensed. Management annually reviews fixed assets to determine whether carrying values have been impaired. As of June 30, 2019, no impairment has been recognized. Depreciation expense was \$335,396 for the year ended June 30, 2019.

7. Fair value of financial instruments

The Organization applies the provisions of ASC topic 820 "*Fair Value Measurements and Disclosures*" (ASC 820) for their financial and nonfinancial assets and liabilities which the Organization has recognized or disclosed at fair value on a nonrecurring basis. This topic, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America and expands disclosures about fair value measurements for financial assets and liabilities. This topic also establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value.

The three levels of input used to measure fair value are as follows:

- Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

TFI Family Services, Inc. and Affiliates
Notes to Consolidated Financial Statements - Continued
June 30, 2019

Note A - Description of Organization and Summary of Significant Accounting Policies - Continued

The fair value hierarchy gives the highest priority to quoted prices (Level 1) and lowest priority to unobservable inputs (Level 3).

8. Revenue recognition

The organizations provided foster care placement and family care programs based on contracted rates with participating organizations. Revenue is recognized at the time services have been provided. Revenue from programs is recorded as unrestricted revenue.

9. Functional expenses

The costs of providing programs and other activities has been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among program and administrative services benefited. See Note P for expense by nature and function and description of basis used for allocation.

10. 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 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.

11. Use of estimates

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

12. Income taxes

Family, Pathway, Connections, Texas, MNSI, and Texas-NP 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 accounts 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, 2019.

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 2016. There are currently no examinations of the Organization's income tax returns in progress.

TFI Family Services, Inc. and Affiliates
Notes to Consolidated Financial Statements - Continued
June 30, 2019

Note A - Description of Organization and Summary of Significant Accounting Policies - Continued

13. Subsequent events

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the consolidated financial statements were available to be issued.

14. Adoption of accounting pronouncement

In 2019, the Organization adopted Financial Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The adoption of this standard had no impact on previously reported net assets or the change in net assets.

Note B - Cash and Depository Security

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. As of June 30, 2019, balances exceed the insured amount by approximately \$491,000.

Note C - Information Regarding Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019, comprise the following:

Financial assets	
Cash and cash equivalents	\$ 1,527,459
Certificates of deposit	865,430
Accounts receivable	5,942,163
Other receivables	105,000
Investments	<u>7,973,676</u>
 Total financial assets	 16,413,728
 Less amounts not available to be used within one year	
Pritchett Music Scholarship Fund	<u>(6,156)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$16,407,572</u>

TFI Family Services, Inc. and Affiliates
Notes to Consolidated Financial Statements - Continued
June 30, 2019

Note D - Accounts Receivable and Concentration of Credit Risk

Accounts receivable at June 30, 2019, is represented by the following payers:

Kaw Valley	8 %
St. Francis	8
Managed Care Organizations	23
Oklahoma DHS	6
Texas DFPS	49
Other	<u>6</u>
	<u>100 %</u>

Note E - Service Contract Program Revenues

Family, Connections, and Texas provide foster care and youth services throughout the states of Kansas, Oklahoma, Nebraska, and Texas.

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).

Total revenues recognized in the period ended June 30, 2019, for these programs were approximately \$33,900,000, of which approximately \$5,965,000 is from Pathway.

These revenues were recognized from the following sources for the year ended June 30, 2019:

Kaw Valley	16 %
St. Francis	14
Managed Care Organizations	16
Texas DFPS	41
Oklahoma DHS	6
Other	<u>7</u>
	<u>100 %</u>

Pathway recognized revenue from the following sources for the year ended June 30, 2019:

	<u>PRTF</u>	<u>TRAIL</u>	<u>Foster Care</u>
Managed Care Organizations	88 %	- %	- %
St. Francis		1	
Kaw Valley		4	2
Washington		3	
Other	<u>1</u>	<u>1</u>	<u>—</u>
	<u>89 %</u>	<u>9 %</u>	<u>2 %</u>

TFI Family Services, Inc. and Affiliates
Notes to Consolidated Financial Statements - Continued
June 30, 2019

Note G - Leases

Family, Connections, and Texas have entered into various operating leases for building and equipment. These entities have also entered new leases after year-end to accommodate growth expected due to new contract awards. Future minimum rentals for leases with a stated term and new leases committed to after year-end and prior to the report date are as follows:

2020	\$ 669,512
2021	730,319
2022	619,438
2023	583,165
2024	<u>37,399</u>
Total	<u>\$ 2,639,833</u>

The Organization had total rental expense of \$291,760 for 2019.

Note H - Line of Credit

Family has a line of credit dated July 2, 2018, for \$2,000,000. The line is secured by a commercial pledge agreement signed by Family, Connections, and Pathway. The line of credit matured in July 2019 at which time it was increased to \$3,000,000 and renewed through July 2, 2020. There was no outstanding balance at June 30, 2019. Subsequent to June 30, 2019, and prior to the report date on the financial statements, the Organization borrowed in increments \$2,000,000 from the line of credit for general needs of the Organization.

Note I - Long-Term Debt

Long-term debt consisted of the following at June 30, 2019:

Variable rate mortgage with a bank, currently 5.625%, due in monthly payments of \$23,562.54 (including principal and interest), final payment of outstanding principal and interest is due June 2025 collateralized by real estate located in Topeka and Wichita, Kansas	\$ 1,429,089
Variable rate mortgage with a bank, currently 5.25%, due in equal monthly payments of \$2,358.97 (including principal and interest), final payment of outstanding principal and interest is due June 2034 collateralized by real estate located in Topeka, Kansas	292,000
Fixed rate mortgage with a bank at 5.25%, due in monthly payments of \$4,374.62 (including principal and interest), final payment of outstanding principal and interest is due June 2024 collateralized by real estate located in Wellington, Kansas	<u>230,000</u>
	1,951,089
Less: Current portion	<u>262,446</u>
Total long-term debt	<u>\$ 1,688,643</u>

TFI Family Services, Inc. and Affiliates
Notes to Consolidated Financial Statements - Continued
June 30, 2019

Note I - Long-Term Debt - Continued

The aggregate maturities on the above debt are as follows for the years ending June 30:

2020	\$ 262,446
2021	277,299
2022	293,078
2023	309,756
2024	326,804
Thereafter	<u>481,706</u>
Total	<u>\$ 1,951,089</u>

Interest cost incurred and charged to expense on long-term debt was \$86,420 for the year ended June 30, 2019.

Note J - 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 childcare 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 50 percent of an employee's contributions up to 5 percent of compensation. The Organization's contribution was \$48,591 for 2019.

403(b) Plan

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

Note K - 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.

TFI Family Services, Inc. and Affiliates
Notes to Consolidated Financial Statements - Continued
June 30, 2019

Note L - Self-Insurance Reserve

MNSI carried self-insurance health coverage for the year ended June 30, 2019. Employees of MNSI, and TFI and affiliates were included in the plan with MNSI designated as the plan manager. At June 30, 2019, MNSI had not met its aggregate stop-loss under its policy and had a self-insurance liability of \$76,236 at June 30, 2019.

Note M - Net Assets with Donor Restrictions

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

Note N - Fundraising

The Organization held four special events in 2019, a Golf Tournament in Topeka, Kansas and Pittsburg, Kansas; Adult Easter Egg Hunt in Topeka, Kansas; and, a Golf Ball drop. The funds associated with these events are used to enhance the lives of kids in foster care. The revenue generated from these events in 2019 is recorded in other income and was \$33,181. The expense to hold these events in 2019 is recorded as Fundraising and Development and was \$25,328.

Note O - Contingencies

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. Management, however, does not believe such audits would result in any modifications that would be material to the Organization's financial position at June 30, 2019.

The Organization is exposed to various risk of loss related to the services it provides; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; claims by clients, and natural disasters. The Organization purchases commercial insurance for these risks. There are known claims and incidents that have been asserted. These claims have been referred to the Organization's legal counsel and are in various stages of processing. No accrual for loss contingencies related to these items has been made in the consolidated financial statements as the amount of ultimate settlement, if any, cannot be reasonably estimated. Management does not believe that any amounts asserted would exceed amounts covered by insurance.

TFI Family Services, Inc. and Affiliates
Notes to Consolidated Financial Statements - Continued
June 30, 2019

Note P - Functional Expenses

The Organization provides a wide spectrum of youth services primarily in Kansas, Oklahoma, Nebraska, and Texas, including foster care programs, attendant care programs, foster care placement, family living experience along with supervision, structure, and guidance for children in need of care. 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. The table below represents expenses related to providing these services by both their nature and function for the year ended June 30, 2019:

	Program services					Support services		Total expenses
	Foster care program (KS,NE,OK,TX)	Foster care placement (TX)	Residential	Other program services	Program subtotal	Management and general	Fundraising	
Salaries and wages	\$ 2,865,637	\$ 1,747,850	\$2,609,914	\$ 790,640	\$ 8,014,041	\$ 1,587,046	\$ -	\$ 9,601,087
Employee benefits	635,503	310,902	484,760	138,949	1,570,114	340,857		1,910,971
Foster care providers, utilities, maintenance, and other	9,162,132	10,612,759	1,498,244	314,962	21,588,097	826,883	80,015	22,494,995
Depreciation	38,328	1,409	103,699	30,773	174,209	161,187		335,396
Interest expense			67,209	19,211	86,420			86,420
	<u>\$12,701,600</u>	<u>\$12,672,920</u>	<u>\$4,763,826</u>	<u>\$1,294,535</u>	<u>\$31,432,881</u>	<u>\$ 2,915,973</u>	<u>\$ 80,015</u>	<u>\$34,428,869</u>

Supplementary Information

TFI Family Services, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year ended June 30, 2019

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>Pass-through grantor's number</u>	<u>Passed through to subrecipients</u>	<u>Total Federal expenditures</u>
U.S. Department of Health and Human Services				
Pass-through programs from				
Texas Department of Family and Protective Services				
Foster Care Title IV-E	*93.658	24737855	\$ -	\$ 3,459,624
Temporary Assistance for Needy Families (Cluster)	*93.558	24737855	-	<u>3,572,435</u>
Total Texas Department of Family and Protective Services			<u>-</u>	<u>7,032,059</u>
Kansas Governor's Grants Program				
Access and Visitation Program - Wichita	93.597	19-SAVP-09	-	7,293
Access and Visitation Program - Lawrence	93.597	19-SAVP-04	-	5,813
Access and Visitation Program - Wichita	93.597	18-SAVP-09	-	1,674
Access and Visitation Program - Topeka	93.597	18-SAVP-10	-	<u>8,878</u>
Total Kansas Governor's Grants Program			<u>-</u>	<u>23,658</u>
Nebraska Department of Health and Human Services				
Foster Care Title IV-E	93.658	G-1801NEFOST	-	<u>967</u>
Total Nebraska Department of Health and Human Services			<u>-</u>	<u>967</u>
Total U.S. Department of Health and Human Services			<u>\$ -</u>	<u>\$ 7,056,684</u>

*Major program

TFI Family Services, Inc. and Affiliates
Notes to Schedule of Expenditures of Federal Awards
June 30, 2019

Note 1 - General

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of TFI Family Services, Inc., for the year ended June 30, 2019. All federal awards passed through other governmental agencies are included on the schedule.

Note 2 - Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting which is the same basis of accounting used to report awards to TFI Family Services, Inc.'s oversight agencies. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 3 - Other Expenditures

TFI Family Services, Inc., did not receive any other federal awards in the form of noncash assistance, insurance, loans, or loan guarantees and incurred no expenditures in relation thereof for the year ended June 30, 2019.

Note 4 - Indirect Cost Rate

TFI Family Services, Inc., has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. TFI Family Services, Inc., negotiates its indirect cost rate with each contract to provide services.

TFI Family Services, Inc. and Affiliates
Schedule of Expenditures of State of Oklahoma Awards
Year ended June 30, 2019

<u>State grantor/program title</u>	<u>Contract number</u>	<u>Award period</u>	<u>Receipts</u>	<u>Expenditures</u>
Oklahoma State Department of Human Service Division of Children and Family Services Supported Foster Care Homes (Regions 1 - 5)	16014398	7/1/18 - 6/30/19	\$ 2,052,732	\$ 2,052,732
Total Oklahoma State Department of Human Service			<u>\$ 2,052,732</u>	<u>\$ 2,052,732</u>

**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***

Board of Directors
TFI Family Services, Inc. and Affiliates

We have audited, in accordance with the 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, the consolidated financial statements of TFI Family Services, Inc. and Affiliates (the Organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 17, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wendling Noe Nelson & Johnson LLC

Topeka Kansas
January 17, 2020

**Independent Auditor's Report on Compliance for Each Major Program and on
Internal Control over Compliance Required by the Uniform Guidance**

Board of Directors
TFI Family Services, Inc. and Affiliates

Report on Compliance for Each Major Federal Program

We have audited TFI Family Services, Inc. and Affiliates' (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2019. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform guidance). Those standards and the Uniform Guidance 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 the Organization'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on

compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Organization's internal control over compliance.

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 a 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wendling Noe Nelson & Johnson LLC

Topeka Kansas
January 17, 2020

TFI Family Services, Inc. and Affiliates
Schedule of Findings and Questioned Costs
Year ended June 30, 2019

Section I - Summary of Auditors' Results

Consolidated financial statements

Type of opinion expressed in the auditors report issued Unmodified

- Internal control over financial reporting
- Material weakness(es) identified? ___ Yes No
 - Significant deficiencies identified that are not considered to be material weakness(es)? ___ Yes No

Noncompliance material to financial statements noted ___ Yes No

Federal awards

- Internal control over major programs
- Material weakness(es) identified? ___ Yes No
 - Significant deficiencies identified that are not considered to be material weakness(es)? ___ Yes No

Type of auditors' report issued on compliance for major programs Unmodified

Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a) ___ Yes No

Identification of major programs

<u>CFDA Number</u>	<u>Name of Program</u>
93.658	Foster Care Title IV-E
93.558	Temporary assistance for needy families

Dollar threshold used to distinguish between type A and type B programs \$750,000.00

Entity qualified as low-risk auditee ___ Yes No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

TFI Family Services, Inc. and Affiliates
Schedule of Prior Year Findings and Questioned Costs
Year ended June 30, 2019

This schedule is not applicable as the year ended June 30, 2019, was the first year subject to audit under Uniform Guidance.