

TFI FAMILY SERVICES, INC.

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MIZE HOUSER

MEMBERSHIP CORPORATION

Independent Auditors' Report

The Board of Directors
TFI Family Services, Inc.
Emporia, Kansas

We have audited the accompanying statements of financial position of TFI Family Services, Inc. (a nonprofit organization) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TFI Family Services, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Mize, Houser & Company

Professional Association
Certified Public Accountants

December 28, 2010
Topeka, Kansas

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TFI FAMILY SERVICES, INC.

Statements of Financial Position
June 30,

<u>Assets</u>			<u>Liabilities and Net Assets</u>		
	<u>2010</u>	<u>2009</u>		<u>2010</u>	<u>2009</u>
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 7,531,848	\$ 9,129,535	Accounts payable and accrued liabilities	\$ 2,976,236	\$ 1,936,005
Certificates of deposit	777,674	973,495	Wages and accrued vacation payable	1,450,531	962,580
Accounts receivable, less allowance for doubtful accounts of \$50,000	4,625,812	2,792,206	Payroll taxes payable	297,120	12,526
Prepaid expenses	<u>266,893</u>	<u>143,191</u>	Line of credit		1,000,000
Total current assets	<u>13,202,227</u>	<u>13,038,427</u>	Current maturities of long-term debt	<u>204,201</u>	<u>191,122</u>
			Total current liabilities	<u>4,928,088</u>	<u>4,102,233</u>
Property and equipment:			Long-term liabilities:		
Buildings and land	5,692,305	5,429,303	Mortgage payable, less current maturities	1,964,166	2,168,367
Equipment	<u>3,541,391</u>	<u>3,407,144</u>	Accrued residual cost	<u>1,041,120</u>	
	9,233,696	8,836,447	Total long-term liabilities	<u>3,005,286</u>	<u>2,168,367</u>
Less: Accumulated depreciation	3,105,770	2,407,917	Total liabilities	<u>7,933,374</u>	<u>6,270,600</u>
Work in progress		<u>5,850</u>			
Net property and equipment	<u>6,127,926</u>	<u>6,434,380</u>			
Other assets:			Net assets:		
Pledged certificate of deposit	2,014,146	9,512	Unrestricted and undesignated	17,350,015	15,896,277
Deposits and other assets	473,281	615,016	Temporarily restricted	<u>8,739</u>	<u>8,839</u>
Restricted cash	8,739	8,839	Total net assets	<u>17,358,754</u>	<u>15,905,116</u>
Due from related parties	<u>3,465,809</u>	<u>2,069,542</u>			
Total other assets	<u>5,961,975</u>	<u>2,702,909</u>	Total liabilities and net assets	<u>\$25,292,128</u>	<u>\$22,175,716</u>
Total assets	<u>\$25,292,128</u>	<u>\$22,175,716</u>			

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

TFI FAMILY SERVICES, INC.

Statements of Activities
For the Years Ended June 30,

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and other support:						
Revenue:						
Program	\$54,269,753	\$ -	\$54,269,753	\$35,322,752	\$ -	\$35,322,752
Grant	342,616		342,616	472,708		472,708
Other	531,333		531,333	494,260		494,260
Interest income	22,493		22,493	101,656		101,656
Net assets released from restrictions	100	(100)		19,198	(19,198)	
Total revenue and other support	<u>55,166,295</u>	<u>(100)</u>	<u>55,166,195</u>	<u>36,410,574</u>	<u>(19,198)</u>	<u>36,391,376</u>
Program expenses:						
Permanency	30,736,951		30,736,951	8,827,604		8,827,604
Preservation				4,053,165		4,053,165
Foster care	15,353,967		15,353,967	14,892,524		14,892,524
Behavioral health	312,983		312,983	1,453,975		1,453,975
Grant	183,262		183,262	392,965		392,965
Other program expenses	3,066,715		3,066,715	2,915,697		2,915,697
Administration and support expenses	<u>4,058,679</u>		<u>4,058,679</u>	<u>3,358,387</u>		<u>3,358,387</u>
Total expenses	<u>53,712,557</u>	<u>-</u>	<u>53,712,557</u>	<u>35,894,317</u>	<u>-</u>	<u>35,894,317</u>
Change in net assets before transfer to affiliate and recovery of accrued residual cost	1,453,738	(100)	1,453,638	516,257	(19,198)	497,059
Change in accrued residual cost				1,698,822		1,698,822
Transfer to affiliate				<u>(290,034)</u>		<u>(290,034)</u>
Change in net assets	1,453,738	(100)	1,453,638	1,925,045	(19,198)	1,905,847
Net assets at beginning of year	<u>15,896,277</u>	<u>8,839</u>	<u>15,905,116</u>	<u>13,971,232</u>	<u>28,037</u>	<u>13,999,269</u>
Net assets at end of year	<u>\$17,350,015</u>	<u>\$ 8,739</u>	<u>\$17,358,754</u>	<u>\$15,896,277</u>	<u>\$ 8,839</u>	<u>\$15,905,116</u>

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

TFI FAMILY SERVICES, INC.

Statements of Cash Flows
For the Years Ended June 30,

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>1,453,638</u>	\$ <u>1,905,847</u>
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	744,231	544,607
Gain on sale of fixed assets	(13,602)	
Gain on sale of investments		(27,940)
Transfer fixed assets and goodwill to affiliate		133,667
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(1,833,606)	485,239
Prepaid expenses	(123,702)	(10,302)
Other assets	141,735	(564,556)
Due from related parties	(1,396,267)	(1,662,599)
Decrease (increase) in:		
Accounts payable	1,040,231	514,319
Wages and payroll taxes payable	772,545	150,910
Residual costs	<u>1,041,120</u>	<u>(1,698,822)</u>
Total adjustments	<u>372,685</u>	<u>(2,135,477)</u>
Net cash provided by (used in) operating activities	<u>1,826,323</u>	<u>(229,630)</u>
Cash flows from investing activities:		
Purchase of property, equipment and goodwill	(469,059)	(2,729,635)
Proceeds from sale of property and equipment	44,884	
Purchase of investments and certificates of deposit	(1,808,813)	(12,338,484)
Proceeds from sale of investments		15,387,940
Change in restricted cash	<u>100</u>	<u>19,198</u>
Net cash (used in) provided by investing activities	<u>(2,232,888)</u>	<u>339,019</u>
Cash flows from financing activities:		
(Payments) borrowings on line of credit	(1,000,000)	1,000,000
Borrowings on mortgages payable		287,000
Payments on notes and mortgages payable	<u>(191,122)</u>	<u>(159,099)</u>
Net cash (used in) provided by financing activities	<u>(1,191,122)</u>	<u>1,127,901</u>
Net change in cash and cash equivalents	(1,597,687)	1,237,290
Cash and cash equivalents at beginning of year	<u>9,129,535</u>	<u>7,892,245</u>
Cash and cash equivalents at end of year	\$ <u>7,531,848</u>	\$ <u>9,129,535</u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ <u>178,650</u>	\$ <u>155,648</u>

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

TFI FAMILY SERVICES, INC.

Summary of Significant Accounting Policies June 30, 2010 and 2009

Nature of the Organization

TFI Family Services, Inc. (the Organization), formerly The Farm, Inc., 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% charitable contributions deduction for individual donors. The Organization provides a wide spectrum of youth services in Kansas, including reintegration/foster care programs, behavioral health programs, and attendant care programs.

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.

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, 2010, money market funds consist of Edward Jones Money Market Fund.

Certificates of Deposit

Certificates of deposit are stated at cost.

Accounts Receivable

Accounts receivable represent amounts due from customers. All amounts are expected to be collected within one year. Management periodically reviews accounts receivable 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 40 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.

TFI FAMILY SERVICES, INC.

Summary of Significant Accounting Policies June 30, 2010 and 2009

Net Assets

The Organization provides information regarding its financial position and activities according to three classes of net assets based on donor restrictions: unrestricted, temporarily restricted and permanently restricted. The Board of Directors may designate a portion of unrestricted net assets for specific purposes.

All funds over which the Board of Directors has discretionary control have been included as current unrestricted net assets. See Note 11 regarding temporarily restricted net assets.

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 number of employees and participants and on estimates made by the Organization's management.

Donated Materials 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.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising

Advertising expense is charged to operations in the year incurred.

TFI FAMILY SERVICES, INC.

Summary of Significant Accounting Policies

June 30, 2010 and 2009

Income Taxes

The Organization is classified as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and is, therefore, generally exempt from federal income taxes. Income from unrelated activities is subject to income tax under the Internal Revenue Code. The Organization reported no tax liability for 2010 and 2009.

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 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 2006. There are currently no examinations of the Organization's income tax returns in progress.

TFI FAMILY SERVICES, INC.

Notes to Financial Statements
June 30, 2010 and 2009

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 instrument rental for foster children in Crawford County.

2. Purchase of Service Contract

The Organization 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. The Organization is a fee for services agency.

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

	<u>2010</u>	<u>2009</u>
SRS	90%	69%
St. Francis	3	6
Medicaid	2	3
United Methodist Youthville	2	3
Kaw Valley	1	6
Grants	1	1
Other	1	12

3. Leases

The Organization has entered into various operating leases for buildings and equipment. Future minimum rentals at June 30, 2010 for the leases with a stated term are as follows:

2011	\$ 721,930
2012	594,229
2013	598,341
2014	<u>6,756</u>
Total	<u>\$1,921,256</u>

The Organization had rental expense of \$835,633 and \$758,012 for 2010 and 2009.

TFI FAMILY SERVICES, INC.

Notes to Financial Statements
June 30, 2010 and 2009

4. Notes Payable

The Organization has a line of credit dated June 30, 2010 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 2011. No amounts were outstanding at June 30, 2010.

5. Long-Term Debt

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

	<u>2010</u>	<u>2009</u>
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	\$ 954,180	\$ 991,812
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	227,879	300,861
6.5% 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	780,386	808,807
6.5% mortgage to US Bank, N.A., due in 60 payments of \$5,628 (including principal and interest), final payment due November 2013, collateralized by essentially all assets of the Organization	<u>205,922</u>	<u>258,009</u>
	2,168,367	2,359,489
Less: Current portion	<u>204,201</u>	<u>191,122</u>
Total long-term debt	<u>\$1,964,166</u>	<u>\$2,168,367</u>

The aggregate maturities on the above debt are as follows:

Year ending June 30:	
2011	\$ 204,201
2012	217,846
2013	209,629
2014	112,876
2015	91,073
Thereafter	<u>1,332,742</u>
Total	<u>\$2,168,367</u>

TFI FAMILY SERVICES, INC.

Notes to Financial Statements

June 30, 2010 and 2009

6. Employee Benefits

Post Retirement Benefits

No post retirement benefits are provided to employees.

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 are 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 \$303,467 and \$266,304 for 2010 and 2009.

403(b) Plan

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

7. 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 unused paid leave or sick leave reserve pool.

8. Accrued Residual Cost

Under the Organization's contracts with SRS, the Organization's responsibility for all families referred to their care during the contracts' terms continues for a twelve-month period after the contracts expire. The Organization 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, 2010, the Organization has accrued one-fourth of the estimated cost as they have completed one year of the four-year contracts.

When the previous contracts expired on June 30, 2009, SRS indicated that the new contractor would take over the responsibility for the services. Therefore, the costs previously accrued for the contracts ended June 30, 2009 were reversed and recognized as income at June 30, 2009.

TFI FAMILY SERVICES, INC.

Notes to Financial Statements
June 30, 2010 and 2009

9. State of Kansas Contract

On July 1, 2005, the Organization entered into contracts with the State of Kansas and SRS for reintegration/foster care/adoption for region one and family preservation for region three. Under the contracts, the Organization received a predetermined fixed amount each month, regardless of the number of children under care, plus an additional amount for each child under care.

On June 30, 2009, the contracts expired for reintegration/foster care/adoption for region one and family preservation for region three. These contracts were replaced with reintegration/foster care/adoption for region one and region three. 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				
	2009	2010	2011	2012	2013
Reintegration/Foster Care/Adoption – Region 1:					
Per child	\$ 1,474	\$ 1,483	\$ 1,503	\$ 1,526	\$ 1,548
Fixed monthly payment	627,096	596,903	608,841	624,062	639,664
Reintegration/Foster Care/Adoption – Region 3:					
Per child		\$ 1,444	\$ 1,459	\$ 1,481	\$ 1,503
Fixed monthly payment		723,090	741,167	759,696	778,688
Family preservation – Region 3:					
In-home services:					
At referral – Per child		1,135			
At 45 days – Per child		1,135			
At 90 days – Per child		1,135			
Out-of-home placement:					
Per child		1,650			
Fixed monthly payment		137,101			

A significant amount of personnel time was spent in fiscal year 2009 preparing for the 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, 2010 and 2009 is \$418,936 and \$558,581, and these amounts are included in other assets. The Organization expensed \$139,645 of these deferred costs in fiscal year 2010, which is included in Permanency program expenses.

TFI FAMILY SERVICES, INC.

Notes to Financial Statements

June 30, 2010 and 2009

10. Related Parties

The Kansas Family and Children's Foundation (Foundation) is a separate corporation from the Organization. The Organization does not have a majority voting interest in, nor does it appoint members to, the Foundation's board of directors. The Foundation's articles of incorporation restrict its activities to operations exclusively for the benefit of TFI Community Services, Inc. and its affiliates, which includes the Organization.

Pathway Family Services, Inc. (Pathway) is a separate corporation from the Organization. The Organization does not have a majority interest in, nor does it appoint members to, Pathway's board of directors. Pathway's articles of incorporation reflect that it is organized to provide family living experience along with supervision, structure, and guidance for children in need of care.

TFI Community Child Care, Inc. (TFI CCC) is a separate corporation from the Organization. The Organization does not have a majority voting interest in, nor does it appoint members to, TFI CCC's board of directors. TFI CCC's articles of incorporation provide that it was formed to establish and operate daycare programs for children in the general public.

TFI Financial Services, Inc. (Financial) is a separate corporation from the Organization. The Organization does not have a majority voting interest in, nor does it appoint members to, Financial's board of directors. Financial's articles of incorporation provide that it was formed as a for-profit to engage in any act or activity for which corporations may be organized under Kansas General Corporation Code.

TFI Community Services, Inc. (Community) is a separate corporation from the Organization. The Organization does not have a majority voting interest in, nor does it appoint members to, Community's board of directors. Community's articles of incorporation restrict its activities to operations exclusively for the benefit of the Organization and its affiliates.

The Organization incurred the following income and expense in transactions with related parties during the year ended June 30:

	<u>2010</u>	<u>2009</u>
Revenue:		
Foundation	\$ 16,538	\$ 39,542
Pathway	65,162	131,853
TFI CCC	183,102	174,503
Financial	41,333	
Expenses:		
Foundation	\$ 448,073	\$ 313,417
Pathway	477,760	92,640
TFI CCC	44,731	4,280
Transfer to the Foundation		290,034

The Foundation occupied offices provided by the Organization for which no rent was charged. The Foundation, Pathway, TFI CCC and Financial reimbursed the Organization for their share of utilities, telephone, office supplies, personnel and postage costs.

TFI FAMILY SERVICES, INC.

Notes to Financial Statements
June 30, 2010 and 2009

10. Related Parties (Continued)

Amounts due from (to) related parties to the Organization include the following at June 30:

	<u>2010</u>	<u>2009</u>
Foundation	\$1,105,881	\$ 863,424
Pathway	1,346,869	395,225
TFI CCC	963,848	809,892
Community	2,601	1,001
Financial	<u>46,610</u>	<u> </u>
	<u>\$3,465,809</u>	<u>\$2,069,542</u>

The Organization has a note receivable from Pathway. The note provides for monthly payments from Pathway of \$38,047, including interest at 4%. Final payment is due in April 2013. The balance outstanding at June 30, 2010 is \$1,292,731 and is included in the amount listed above as due from Pathway.

11. 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.

12. 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, 2010.

13. Guarantee

During 2010, the Organization guaranteed a mortgage to Pathway from a commercial bank. The unlimited guaranty is in force as long as Pathway is indebted to the bank and provides that the Organization will make payment to the bank in the event Pathway fails to perform or as required by the bank. At June 30, 2010, the outstanding amount on the debt was \$3,080,008. Pathway's facilities have been mortgaged as collateral on the debt and have an appraised value of approximately \$4,075,000. Because the appraised value of the collateral exceeds the outstanding debt, no liability has been recognized by the Organization at June 30, 2010.

TFI FAMILY SERVICES, INC.

Notes to Financial Statements
June 30, 2010 and 2009

14. Subsequent Events

The Organization has evaluated subsequent events through December 28, 2010, the date at which audited financial statements were available to be released.