

Faith Family Kids, Inc.
(A Texas Nonprofit Organization)
Annual Financial and Compliance Audit
Years Ended August 31, 2019 and 2018

FAITH FAMILY KIDS, INC.
 (A Texas Nonprofit Organization)
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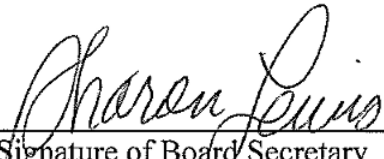
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Faith Family Kids, Inc.

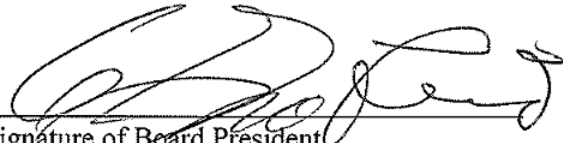
(Federal Employer Identification Number: 06-1689571)
Certificate of Board

Faith Family Academy of Waxahachie County-District Number: 070-801

We, the undersigned, certify that the attached Financial and Compliance Report of Faith Family Kids, Inc. was reviewed and (check one) approved disapproved for the year ended August 31, 2019, at a meeting of the governing body of the charter holder on the 18 day of December 2019.



Signature of Board Secretary



Signature of Board President



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Faith Family Kids, Inc.

We have audited the accompanying financial statements of Faith Family Kids, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Faith Family Kids, Inc. as of August 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis as required by the Texas Education Agency, and is not a required part of the financial statements. Similarly, the accompanying schedule of expenditures of federal awards as listed in the table of contents is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the 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 December 6, 2019, on our consideration of Faith Family Kids, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Faith Family Kids, Inc.'s internal control over financial reporting and compliance.



Houston, Texas
December 6, 2019

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2019 and 2018

Assets	2019	2018
Current assets		
Cash and cash equivalents	\$ 4,676,702	\$ 3,459,704
Restricted cash - debt service reserve	1,276,027	1,269,450
Due from grantor agencies	1,933,091	1,471,262
Other receivables	10,184	10,184
Other assets	12,488	6,909
Total current assets	<u>7,908,492</u>	<u>6,217,509</u>
Noncurrent assets		
Deferred charges	\$ 1,137,065	\$ 1,200,690
Property and equipment, net	15,706,228	16,323,032
Total noncurrent assets	<u>16,843,293</u>	<u>17,523,722</u>
TOTAL ASSETS	<u>\$ 24,751,785</u>	<u>\$ 23,741,231</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accrued salaries payable	\$ 901,294	\$ 886,058
Accrued payable	171,897	21,068
Accrued interest expenses	28,755	28,755
Due to student groups	36,604	82,574
Capital lease payable - current portion	116,688	137,910
Note payable - current portion	18,063	-
Bonds payable - current portion	450,000	430,000
Total current liabilities	<u>1,723,301</u>	<u>1,586,365</u>
Long-term liabilities		
Capital lease payable - less current portion	-	129,457
Note payable - less current portion	81,263	-
Bonds payable - less current portion	12,395,000	12,845,000
Total long-term liabilities	<u>12,476,263</u>	<u>12,974,457</u>
TOTAL LIABILITIES	<u>14,199,564</u>	<u>14,560,822</u>
Net assets		
Without donor restrictions	3,531,849	3,103,161
With donor restrictions	7,020,372	6,077,248
TOTAL NET ASSETS	<u>10,552,221</u>	<u>9,180,409</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,751,785</u>	<u>\$ 23,741,231</u>

The accompanying notes are an integral part of this schedule

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
STATEMENTS OF ACTIVITIES
(With comparative totals for the year ended August 31, 2018)
FOR THE YEAR ENDED AUGUST 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2019	2018
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 222,062	\$ -	\$ 222,062	\$ 114,984
5750 Revenue from co-curricular or enterprising	206,626	-	206,626	230,443
Total local support	428,688	-	428,688	345,427
State program revenues:				
5811 Available school fund	-	1,091,254	1,091,254	504,237
5812 Foundation school program	-	23,570,213	23,570,213	22,800,366
5820 State program revenues distributed by the TEA	-	255,296	255,296	356,047
Total state program revenues	-	24,916,763	24,916,763	23,660,650
Federal program revenues:				
5920 Federal revenues distributed by the TEA	-	4,099,382	4,099,382	3,450,338
Total federal program revenues	-	4,099,382	4,099,382	3,450,338
Net assets released from restrictions	28,073,021	(28,073,021)	-	-
TOTAL REVENUES	28,501,709	943,124	29,444,833	27,456,415
EXPENSES				
Program services:				
Instruction and Instructional-Related Services	15,946,506	-	15,946,506	14,921,374
Instructional and School Leadership	1,513,476	-	1,513,476	1,492,155
Support services:				
Administrative Support Services	1,760,297	-	1,760,297	1,697,158
Ancillary Services	762,448	-	762,448	787,416
Support Services-Non-Student Based	4,593,448	-	4,593,448	4,360,016
Support Services-Student (Pupil)	2,921,932	-	2,921,932	2,783,821
Community Services	574,914	-	574,914	693,363
TOTAL EXPENSES	28,073,021	-	28,073,021	26,735,303
Change in net assets	428,688	943,124	1,371,812	721,112
Net assets, beginning of year	3,103,161	6,077,248	9,180,409	8,459,297
NET ASSETS, END OF YEAR	\$ 3,531,849	\$ 7,020,372	\$ 10,552,221	\$ 9,180,409

The accompanying notes are an integral part of this schedule

FAITH FAMILY KIDS, INC.
 (A Texas Nonprofit Organization)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2019

	Program Services			Supporting Services						Total
	Instruction & Instructional-Related Services	Instructional & School Leadership	Total Program Services	Administrative Support Services	Support Services - Non-Student Based	Support Services - Student (Pupil)	Community services	Debt Service	Total Support Services	
EXPENSES:										
Salaries and wages	\$ 11,609,537	\$ 1,406,535	\$ 13,016,072	\$ 1,055,883	\$ 1,869,450	\$ 1,498,242	\$ 40,017	\$ -	\$ 4,463,592	\$ 17,479,664
Benefits	891,081	71,087	962,168	69,989	134,481	151,946	5,187	-	361,603	1,323,771
Total Payroll Expenses	12,500,618	1,477,622	13,978,240	1,125,872	2,003,931	1,650,188	45,204	-	4,825,195	18,803,435
Contract labor	1,509,042	35,854	1,544,896	196,732	1,329,960	195,321	519,016	-	2,241,029	3,785,925
Education Service Center	-	-	-	-	37,570	-	-	-	37,570	37,570
Rent expense	325,867	-	325,867	-	-	2,412	-	-	2,412	328,279
Fuel	-	-	-	-	-	27,261	-	-	27,261	27,261
Instructional materials	3,659	-	3,659	-	-	-	-	-	-	3,659
Food	-	-	-	-	-	673,576	-	-	673,576	673,576
Supplies	1,362,744	-	1,362,744	70,372	242,244	195,008	5,876	-	513,500	1,876,244
Travel	112,407	-	112,407	30,644	38,354	85,726	-	-	154,724	267,131
Insurance and bonding	20,828	-	20,828	176,981	-	-	-	-	176,981	197,809
Interest expense	-	-	-	-	-	-	-	762,448	762,448	762,448
Depreciation	1,950	-	1,950	66,930	914,929	63,987	-	-	1,045,846	1,047,796
Other	109,391	-	109,391	92,766	26,460	28,453	4,818	-	152,497	261,888
Total Non-payroll Expenses	3,445,888	35,854	3,481,742	634,425	2,589,517	1,271,744	529,710	762,448	5,787,844	9,269,586
TOTAL EXPENSES	\$ 15,946,506	\$ 1,513,476	\$ 17,459,982	\$ 1,760,297	\$ 4,593,448	\$ 2,921,932	\$ 574,914	\$ 762,448	\$ 10,613,039	\$ 28,073,021

The accompanying notes are an integral part of this schedule

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2018

	Program Services			Supporting Services						Total Expenditures
	Instruction & Instructional-Related Services	Instructional & School Leadership	Total Program Services	Administrative Support Services	Support Services - Non-Student Based	Support Services - Student (Pupil)	Community services	Debt Service	Total Support Services	
EXPENSES:										
Salaries and wages	\$ 11,363,795	\$ 1,417,634	\$ 12,781,429	\$ 953,157	\$ 1,783,712	\$ 1,505,747	\$ 194,958	\$ -	\$ 4,437,574	\$ 17,219,003
Benefits	917,720	74,521	992,241	66,353	143,194	157,249	17,862	-	384,658	1,376,899
Total Payroll Expenses	12,281,515	1,492,155	13,773,670	1,019,510	1,926,906	1,662,996	212,820	-	4,822,232	18,595,902
Contract labor	1,233,950	-	1,233,950	290,419	1,233,560	77,487	466,767	-	2,068,233	3,302,183
Education Service Center	-	-	-	-	41,250	220	-	-	41,470	41,470
Rent expense	192,548	-	192,548	-	-	3,593	-	-	3,593	196,141
Fuel	-	-	-	-	-	28,196	-	-	28,196	28,196
Food	-	-	-	-	-	731,140	-	-	731,140	731,140
Supplies	1,078,313	-	1,078,313	44,101	208,457	151,766	5,749	-	410,073	1,488,386
Travel	69,935	-	69,935	37,973	30,976	33,480	-	-	102,429	172,364
Insurance and bonding	19,984	-	19,984	157,843	-	-	-	-	157,843	177,827
Interest expense	-	-	-	-	-	-	-	787,416	787,416	787,416
Depreciation	-	-	-	73,389	893,439	78,813	-	-	1,045,641	1,045,641
Other	45,129	-	45,129	73,923	25,428	16,130	8,027	-	123,508	168,637
Total Non-payroll Expenses	2,639,859	-	2,639,859	677,648	2,433,110	1,120,825	480,543	787,416	5,499,542	8,139,401
TOTAL EXPENSES	\$ 14,921,374	\$ 1,492,155	\$ 16,413,529	\$ 1,697,158	\$ 4,360,016	\$ 2,783,821	\$ 693,363	\$ 787,416	\$ 10,321,774	\$ 26,735,303

The accompanying notes are an integral part of this schedule

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
State grant receipts	\$ 24,454,934	\$ 23,239,600
Federal grant receipts	4,099,382	3,450,338
Receipts from miscellaneous sources	423,109	355,072
Payments to vendors for goods and services rendered	(4,151,774)	(3,539,794)
Payments to charter school personnel for services rendered	(21,990,908)	(21,222,241)
Payments on long-term debt for interest expense	(698,823)	(724,646)
Net cash provided by operating activities	2,135,920	1,558,329
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of capital assets	(430,992)	(506,678)
Net cash used in investing activities	(430,992)	(506,678)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from financial institution	100,000	-
Repayment on long-term debt	(581,353)	(567,124)
Net cash used in financing activities	(481,353)	(567,124)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,223,575	484,527
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,729,154	4,244,627
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 5,952,729	\$ 4,729,154
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 1,371,812	\$ 721,112
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,047,796	1,046,643
Amortization-bond costs	63,625	63,625
Changes in operating assets and liabilities:		
Due from grantor agencies	(461,829)	(421,050)
Other assets	(5,579)	9,645
Accrual payable	150,829	(31,259)
Accrued interest payable	-	(855)
Accrued salaries payable	15,236	159,832
Due to student groups	(45,970)	10,636
Total adjustments	764,108	837,217
Net cash provided by operating activities	\$ 2,135,920	\$ 1,558,329
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid during the fiscal year	\$ 698,823	\$ 724,646

The accompanying notes are an integral part of this schedule

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2019 and 2018

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Faith Family Kids, Inc. (the “Charter Holder” or the “School”) is governed by a Board of Directors comprised of four members. The Board of Directors is selected pursuant to the bylaws of the Charter Holder and has the authority to make decisions and is responsible for the fiscal affairs of the Charter Holder as well as its two campuses.

Nature of activities

In March 1998, the State Board of Education of the State of Texas granted the Charter Holder an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program approved by the State Board of Education and the terms of the charter application (Contract for Charter), Waxahachie Faith Family Academy was opened. Faith Family Kids, Inc. is the administrative vehicle that provides administrative and operational support to the Charter School. Waxahachie Faith Family was organized to provide educational services to students in grades Pre-K through 12th Grade and the Charter Holder’s Board of Directors governs their programs, services, activities, and functions.

Basis of Accounting

The financial statements of the School have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Financial Statement Presentation

The School is required by accounting principles generally accepted in the United States of America to report information regarding its financial position and activities. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the School 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 restrictions. Assets restricted solely through the actions of the Board of Directors are reported as net assets without donor restrictions, board-designated.

Net assets with donor restrictions– Net assets subject to donor-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. 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. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

In addition, the School is required by Financial Accounting Standards Board’s (FASB) Accounting Standards Codification (“ASC”) Topic 958-205, *Not-for-Profit Entities-Presentation of Financial Statements*, to present statements of activities and cash flows.

When both restricted and unrestricted resources are available for use, it is the School’s policy to use restricted resources first, then unrestricted resources as they are needed.

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2019 and 2018

Revenue Recognition

Revenues from contributions, donations and other sources are recognized as unrestricted or temporarily restricted revenues when received or unconditionally promised by a third party. State and federal grant revenues are recognized when services are rendered. State Foundation School Program revenues are recognized based on the reported student attendance. Revenues from special events are recognized when the events are held. Interest income is recognized when earned based on passage of time.

Standard Financial Accounting System

For all federal and state programs, the School used the net asset classes and codes specified by the TEA in the Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

Contributions

The School accounts for contributions in accordance with FASB ASC Topic 958-605, *Not-for-Profit Entities-Revenue Recognition*. In accordance with FASB ASC Topic 958-605, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed Services

The School recognizes contributed services at their fair value if the services provide value to the School and require specialized skills, are provided by individuals possessing those skills, and would have been purchased if not provided by contributors, as established by FASB ASC Topic 958-605. During the fiscal year ended August 31, 2019, the School did not receive any services that would meet the criteria for recognition in the financial statements as prescribed in FASB ASC 958-605.

Cash and Cash Equivalents

The School considers all monies in banks and highly liquid investments with maturity of three months or less from date of purchase to be cash equivalents. The carrying value of cash approximates fair value because of the short maturities of those financial instruments. At August 31, 2019 and 2018, the School had unrestricted cash equivalents of \$4,676,702 and \$3,459,704.

Property and Equipment

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the general purpose and specific purpose financial statements. Capital assets are defined by the School as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated lives of assets, which range from three to twenty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2019 and 2018

Income Taxes

The School is a non-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”). Accordingly, income taxes are not provided for in the accompanying financial statements. In addition, the School qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Code.

The School applies the provisions of FASB ASC 740, Income Taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The School believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The School’s Federal income tax returns for years ending August 31, 2016 through August 31, 2018 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

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 certain estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates included in the School’s financial statements are related to the School’s estimate of revenue and receivable for the Foundation School Program, depreciation expense and the functional allocation of expenses.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Liquidity and Availability of Financial Assets

The School has \$7,908,492 of financial assets available within one year of the financial position date to meet cash needs for general operating expenditures, consisting of cash of \$4,676,702 and grants receivable of \$1,933,091. The School also maintains restricted cash of \$1,276,027 for debt service.

As part of the Schools’ liquidity management, the school structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

New Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 – *Leases* (Topic 842), which supersedes existing guidance on leases and amends and supersedes a number of other paragraphs throughout the FASB ASC. This update will be effective for the School’s 2021 annual financial statements. Management is currently evaluating the impact this update will have on the School’s financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities* (Topic 958), which amended the requirements for financial statements and notes for not-for-profit entities in order to improve the

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2019 and 2018

usefulness of information provided and reduce the complexities or costs for preparers or users of financial statements. This update will be effective for the Organization's 2019 financial statements. Management is currently evaluating the impact this update will have on the Organization's financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This update provided clarified guidance on certain cash flow classification issues and will be effective for the Organization's 2020 financial statements. Management is currently evaluating the impact this update will have on the Organization's financial statements.

2. CONCENTRATION OF CREDIT AND BUSINESS RISKS

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the School will not be able to recover its deposits. The School maintains deposits at federally insured banks and strives to minimize its exposure to custodial credit risk by maintaining deposits at institutions with demonstrated financial strength. Balances in interest bearing accounts at the banks are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per bank. The combined carrying amount of the School's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in investments) were \$5,952,729 and \$4,729,154, and the bank balance was \$6,246,675 and \$5,052,258 as of August 31, 2019 and 2018.

The School's deposits at its bank included the sum of \$6,246,675, which were fully collateralized by pledged securities from the financial institution's investment portfolio. Management believes that such credit risk exposure was mitigated by the financial strength of the banking institution in which the deposits were held, and the securities pledged by the institution.

The State of Texas and Federal Government provided a total of 98.5% and 84.6% of the School's total revenues for the years ended August 31, 2019 and 2018 of which 84.6% and 86.2% were provided by the State of Texas. For the years ended August 31, 2019 and 2018, 94.6% and 96.4% of the total state funding, or 80.0% and 83.0% of total revenue, consists of Foundation School Program ("FSP") income, respectively. Cash and cash equivalents reported in the statement of financial position is different from the cash and cash equivalents at banks due to outstanding checks and similar reconciling items.

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2019 and 2018

3. DUE FROM TEXAS EDUCATION AGENCY

As of August 31, 2019 and 2018, the School had earned the following revenues which were not received until after year end:

<u>Fund</u>	<u>2019</u>	<u>2018</u>
State Foundation Program	\$ 1,531,466	\$ 1,253,918
State Available School Fund Program	32,740	58,711
ESEA, Title I, Part A - Improving Basic Programs	145,165	-
National School Breakfast and Lunch Program	96,392	87,827
ESEA, Title II, Part A, Teacher/Principal Training	37,224	20,423
IDEA - Part B, Formula	9,624	-
Title III, Part A - English Language Acquisition	13,287	17,381
Career and Technical - Basic Grant	6,101	-
21st Century Community Learning Centers	51,435	1,909
Title IV Part A, Subpart 1	5,666	21,197
Other State Grants	3,800	9,896
IDEA - Part B, Preschool	191	-
Total	<u>\$ 1,933,091</u>	<u>\$ 1,471,262</u>

4. PROPERTY AND EQUIPMENT

Capital assets acquired with public funds received by the School for the operation of Waxahachie charter constitutes public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets. Depreciation expense for the period ended August 31, 2019 and 2018 totaled \$1,047,796 and \$1,046,643 respectively.

Property and equipment at August 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Land & Land Improvements	\$ 1,739,221	\$ 1,598,260
Buildings & Improvements	22,236,342	22,188,027
Construction In Progress	6,272	6,272
Furniture & Equipment	985,302	851,113
Library Books And Media	23,790	23,790
Vehicles	974,594	867,067
Total Property And Equipment	<u>25,965,521</u>	<u>25,534,529</u>
Less: Accumulated Depreciation	<u>10,259,293</u>	<u>9,211,497</u>
Property And Equipment, Net	<u>\$ 15,706,228</u>	<u>\$ 16,323,032</u>

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2019 and 2018

5. CONTINGENT LIABILITIES

The School participates in numerous programs that are subject to audit by the TEA and various federal audit agencies. These programs have complex compliance requirements, and should state or federal auditors find areas of substantial noncompliance, those funds may be subject to refund if so determined by administrative audit review.

6. BONDS PAYABLE

The School had two outstanding bond issues (Series 2006A and 2006B) which were issued on July 20, 2006 through the Bank of New York. The proceeds of these bonds were used to purchase, repair, and renovate certain buildings used for instructional and administrative purposes at both Faith Family Academy campuses. The bonds are secured by a deed of trust against those properties. Amortization expense for the period ended August 31, 2019 and 2018 totaled \$63,625 and \$63,625 respectively, and are included in interest expense on the Statement of Activities.

The School's activity for the remaining Series 2006A bond issue during the year ended August 31, 2019 was as follows:

	Interest Rate	Maturity Date	Beginning Balance	Additions	Repayments	Ending Balance
Series 2006A	4.75% - 5.125%	2015-2036	\$ 13,275,000	\$ -	\$ 430,000	\$ 12,845,000
Less: Deferred Charges			1,200,690		63,625	1,137,065
Net Bonds Payable Total			<u>\$ 12,074,310</u>	<u>\$ -</u>	<u>\$ 366,375</u>	<u>\$ 11,707,935</u>

Future maturities on bonds payable at August 31, 2019 are as follows:

Year ended August 31,	Principal	Interest	Total Requirements
2020	\$ 450,000	\$ 668,631	\$ 1,118,631
2021	470,000	646,131	1,116,131
2022	495,000	622,631	1,117,631
2023	520,000	597,263	1,117,263
2024	550,000	570,613	1,120,613
2025-2036	10,360,000	5,540,256	15,900,256
Total	<u>\$ 12,845,000</u>	<u>\$ 8,645,525</u>	<u>\$ 21,490,525</u>

All scheduled debt payments were made in a timely manner and the Charter Holder is in compliance with all debt covenants as of August 31, 2019.

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2019 and 2018

7. CAPITAL LEASES

In 2016 the School entered into a capital lease for portable classrooms. Future minimum lease payments under the capital leases are as follows:

Year ending August 31,2020	\$ 116,688
Total Minimum Lease Payment	<u>116,688</u>
Less: Current Portion	<u>(116,688)</u>
Long-Term Portion	<u>\$ -</u>

The following assets are subject to the above capital leases whereby the School recognized an asset and a liability upon contract inception:

Buildings And Improvements	\$ 799,436
Less: Accumulated Depreciation	<u>(171,308)</u>
Net Assets Under Capital Lease	<u>\$ 628,128</u>

8. OPERATING LEASES

The School leases office equipment under non-cancellable operating leases that expire November of 2020.

Estimated future minimum lease payments on non-cancellable operating leases at August 31, are as follows:

2020	\$ 20,055
2021	<u>3,390</u>
Total Minimum Lease Commitments Under Noncancellable Operating Leases	<u>\$ 23,445</u>
 Total Rent Expense During 2019	 \$ 424,610
Total Rent Expense During 2018	\$ 293,480

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2019 and 2018

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions for the years ending consisted of the following:

	<u>2019</u>	<u>2018</u>
Food Services	\$ 805,792	\$ 486,268
State Foundation Program	<u>6,214,580</u>	<u>5,590,980</u>
Total	<u>\$ 7,020,372</u>	<u>\$ 6,077,248</u>

10. STATE FOUNDATION PROGRAM REVENUE

Charter schools in the State of Texas participate in the State foundation program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period, and at the close of the year, actual attendance is calculated by the TEA and the reports are subject to audit by the TEA. The final State foundation program earnings may be adjusted as a result of any such audit.

A reconciliation of cash paid to revenue recognized for the periods ended August 31, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Cash Received During Fiscal Year	23,262,127	22,437,950
Revenue Accrued At Year-End	1,561,945	1,255,421
Revenue Accrued In Prior Year	<u>(1,253,859)</u>	<u>(893,005)</u>
Revenue Recognized During Current Year	<u>23,570,213</u>	<u>22,800,366</u>

11. HEALTH CARE COVERAGE

During the year ended August 31, 2019, employees of the Charter Holder were covered by a private health insurance plan (the "Plan"). The Charter Holder contributed \$150 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

12. PENSION PLAN OBLIGATIONSPlan Description

The School contributes to the Teacher Retirement System of Texas (the "System" or "TRS"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the School, but are the liability of the State of Texas. The System administers retirement and disability annuities, and death and survivor benefits to plan members

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2019 and 2018

and beneficiaries. The System operates under the authority of provisions contained primarily in the Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the System’s Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the System’s Communications Department at 1-800-223-8778, or by downloading the report from the System’s Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

The risk of participating in this multiemployer defined benefit pension plan is different from a single-employer plan because: (a) the School is a legally separate entity from the State of Texas, (b) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (c) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers, and (d) if an entity chooses to stop participating in the multiemployer plan, there is no withdrawal liability to the plan. The School has no plans to withdraw from its multiemployer plan.

The following present information about the School’s multiemployer pension plan as of August 31, 2019, and for the year ended August 31, 2019:

Name of Pension Fund	EIN and Plan Number	Total Plan Assets		Accumulated Benefit		% Funded	
		2019	2018	2019	2018	2019	2018
TRS	N/A	\$ 157,978,199	\$176,942,454	\$ 209,961,325	\$209,611,329	75.24%	73.74%

The following present’s information about the School’s involvement of such multi-employer pension plan for the year ended August 31, 2019:

Collective Bargaining Agreement	School's Contributions	More than 5% of Total Contributions	FIP/RP Status	Surcharge Imposed
N/A	\$ 478,546	No	N/A	No

Funding policy

Under provisions in State law, TRS plan members are required to contribute 6.80% of their annual covered salary for retirement. Effective September 1, 2014, the school was required to contribute 1.50% of all TRS-covered employees’ salaries who does not contribute to Social Security. None of the school’s TRS-covered employees contribute to Social Security. For the fiscal year ended August 31, 2019, the School’s employees contributed a total of \$1,293,885 and \$109,223 to TRS for retirement and TRS Care.

Under provisions in the State of Texas law, the School is required to pay a 0.55% administrative TRS entity fee, an entity payment of 1.5% for Non-OASDI members for covered salary and a 6.8% administrative TRS new member fee for the first three (3) months for each new TRS member working at the school. The School total administrative fee to TRS was \$126,029, \$252,057, and \$38,294 for TRS Entity Fee, TRS Entity Payment for Non-OASDI Members, and TRS New Member Fee, respectively.

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2019 and 2018

For payroll covered by federal government funded grants, the School is required to contribute to the defined benefit plan matching contribution amount of 6.80% to TRS Retirement and 1% for TRS Care for the charter school's covered payroll. The employer's contributions made to the TRS Retirement and TRS Care were \$90,045 and \$17,980 for the year ended August 31, 2019.

13. BUDGET AMENDMENTS

Prior to the beginning of each school year, The School prepares and submits its annual budget for the next fiscal year. However, due to the significant inflows and outflows of students from the programs, the budget must be amended on a regular basis. This has resulted in the significant variances between the original adopted budget and final amended budget presented on the Budgetary Comparison Schedule.

Function 51 (Plant maintenance and operations) contained an unfavorable variance of \$373,744 from the budget. The variance was primarily due increase of depreciation expenses.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 6, 2019, the date the financial statements were available to be issued. No changes were made, or are necessary to be made, to the consolidated financial statements, as a result of this evaluation.

SUPPLEMENTARY INFORMATION

FAITH FAMILY KIDS, INC.
Schedule of Expenses
For the years ended August 31, 2019 and 2018

Schedule IV

Expenses:	2019	2018
6100 Payroll costs	\$ 18,803,435	\$ 18,595,902
6200 Professional and contracted services	4,151,774	3,539,794
6300 Supplies and materials	2,580,740	2,245,922
6400 Other operating costs	1,774,624	1,566,269
6500 Debt	762,448	787,416
Total expenses	\$ 28,073,021	\$ 26,735,303

FAITH FAMILY KIDS, INC.
Schedule of Capital Assets
As of August 31, 2019

Schedule V

		<u>Local</u>	<u>State</u>	<u>Federal</u>	<u>Total</u>
1510	Land and improvements	\$ -	\$ 1,739,221	\$ -	\$ 1,739,221
1520	Buildings and improvements	-	22,195,027	41,315	22,236,342
1541	Vehicles	-	974,594	-	974,594
1549	Furniture and equipment	-	556,143	452,948	1,009,091
1580	Construction in progress	-	6,273	-	6,273
	Total property and equipment	<u>\$ -</u>	<u>\$ 25,471,258</u>	<u>\$ 494,263</u>	<u>\$ 25,965,521</u>

FAITH FAMILY KIDS, INC.
Budgetary Comparison Schedule
For the year ended August 31, 2019

Schedule VI

		Budgeted Amounts		Actual	Variance
		Original	Final	Amounts	from Final Budget
Revenues					
Local support					
5700	Revenue local and intermediate	\$ 280,650	\$ 411,247	\$ 428,688	\$ 17,441
	Total local support	280,650	411,247	428,688	17,441
State program revenues					
5800	State program revenues	23,842,651	24,633,623	24,916,763	283,140
	Total state program revenues	23,842,651	24,633,623	24,916,763	283,140
Federal program revenues					
5900	Federal program revenues	3,934,851	4,132,590	4,099,382	(33,208)
	Total federal program revenues	3,934,851	4,132,590	4,099,382	(33,208)
	Total revenues	28,058,152	29,177,460	29,444,833	267,373
Expenses					
11	Instruction	15,344,829	15,266,023	15,249,731	16,292
12	Instructional resources and media services	100,650	105,650	102,959	2,691
{a}	13 Curriculum and instructional staff development	489,269	604,269	593,816	10,453
{a}	21 Instructional leadership	251,867	360,867	346,388	14,479
{a}	23 School leadership	869,481	1,182,481	1,167,088	15,393
31	Guidance, counseling and evaluation services	281,081	250,081	232,795	17,286
{a}	32 Social work	123,626	138,626	138,573	53
33	Health services	237,751	237,751	225,514	12,237
{a}	34 Student (pupil) transportation	205,300	237,300	253,084	(15,784)
35	Food service	1,709,500	1,709,500	1,515,466	194,034
{a}	36 Cocurricular/extracurricular activities	398,258	565,458	556,500	8,958
41	General administration	1,889,263	1,739,263	1,760,297	(21,034)
51	Plant maintenance and operations	3,230,904	3,230,904	3,604,648	(373,744)
52	Security and monitoring services	573,100	628,100	599,816	28,284
53	Data processing services	497,114	442,114	388,984	53,130
61	Community services	724,025	609,025	574,914	34,111
71	Interest expense	1,132,134	782,134	762,448	19,686
	Total expenses	28,058,152	28,089,546	28,073,021	16,525
	Change in net assets	-	1,087,914	1,371,812	283,898
	Net assets, beginning of year	9,180,409	9,180,409	9,180,409	-
	Net assets, end of year	\$ 9,180,409	\$ 10,268,323	\$ 10,552,221	\$ 283,898

{a} During the year the school had significant changes in their operations which caused the budget to be amended in these categories by more the 10%

SINGLE AUDIT SECTION

FAITH FAMILY KIDS, INC.
Schedule of Expenditures of Federal Awards
August 31, 2019

Federal Grantor/Pass-through Grantor/Program Title	Number	Number	Expenditures
U.S. DEPARTMENT OF EDUCATION			
Pass-through programs from:			
Texas Education Agency			
ESEA, Title I, Part A - Improving Basic Programs	84.010	19610101070801	\$ 1,212,989
IDEA - Part B, Formula	84.027	196600010708016000	421,987
IDEA - Part B, Preschool	84.173	196610010708016000	2,796
21st Century Community Learning Centers	84.287	196950267110049	448,356
Summer School LEP	84.369A	69551702	5,007
Title IV Part A, Subpart 1	84.424A	19680101070801	76,392
ESEA, Title III, Part A - English Language Acquisition	84.365	19671001070801	126,175
ESEA, Title II, Part A - Teacher and Principal Training	84.367	19694501070801	135,390
Carl D. Perkins - Career and Technology Grant	84.048	19420006070801	48,492
Total Passed Through Texas Education Agency			<u>2,477,584</u>
Total U.S. Department of Education			<u>2,477,584</u>
U.S. DEPARTMENT OF AGRICULTURE			
Pass-through programs from:			
Texas Education Agency			
National School Breakfast Program	10.553	71401201	549,469
National School Lunch Program	10.555	71301201	1,062,079
National School Lunch Program -non cash support	10.555		10,250
Total Passed Through Texas Education Agency			<u>1,621,798</u>
Total U.S. Department of Agriculture			<u>1,621,798</u>
Total Federal Awards			<u>\$ 4,099,382</u>

The accompanying notes are an integral part of this schedule

FAITH FAMILY KIDS, INC.
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2019

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes federal grant activities of the School under programs of the federal government for the year ended August 31, 2019. The information in the 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”). Because the Schedule presents only a selected portion of the operation of the School, it is not intended to and does not present the financial position, changes in net assets, and cash flows of the School.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. RELATIONSHIP TO FINANCIAL REPORT SUBMITTED TO GRANTOR AGENCIES

Amounts reflected in the financial reports filed with grantor agencies for the programs and the supplementary schedules may not agree because of accruals which will be included in the next report filed with the agencies, matching requirements not included in the Schedules and different program year ends.

4. ELECTION TO USE 10% DE MINIMIS INDIRECT COST RATE

The charter school has elected not to use the 10% de minimis indirect cost rate allowed under uniform guidance.

5. COMMITMENTS AND CONTINGENCIES

Federal grants received by the School are subject to review and audit by grantor agencies. The School’s management believes that the results of such audits will not have a material effect on the Schedule.



**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**

To the Board of Directors of
Faith Family Kids, Inc.

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 financial statements of Faith Family Kids, Inc. (the "Organization"), a nonprofit organization, which comprise the statement of financial position as of August 31, 2019, and the related statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 6, 2019 which contained an unmodified opinion on these financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 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.



Houston, Texas
December 6, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

To the Board of Directors of
Faith Family Kids, Inc.

Report on Compliance for Each Major Federal Program

We have audited Faith Family Kids, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended August 31, 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 requirements of laws, regulations, contracts, and grants 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 August 31, 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 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.

Report on Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Organization as of and for the year ended August 31, 2019 and have issued our report thereon dated December 6, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of

expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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.

McConnell & Jones

Houston, Texas
December 6, 2019

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2019

PART 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statement Section

- | | | |
|----|--|------------|
| 1. | Type of auditor’s report issued: | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a) Material weaknesses identified? | No |
| | b) Significant deficiencies identified which are not considered to be material weaknesses? | No |
| | c) Noncompliance material to the financial statements noted? | No |

Federal Awards Section

- | | | |
|----|--|------------|
| 1. | Internal control over major programs: | |
| | a) Material weaknesses identified? | No |
| | b) Significant deficiencies identified which are not considered to be material weaknesses? | No |
| 2. | Type of auditor’s report issued on compliance for major programs: | Unmodified |
| 3. | Any audit findings disclosed, which are required to be reported in accordance with 2 CFR section 200.6.516(a)? | No |
| 4. | Identification of major programs: | |

Federal - CFDA Number	Name of Federal Program/Cluster
10.553 and 10.555	National School Breakfast and Lunch Program

- | | | |
|----|--|-----------|
| 5. | Dollar threshold used to distinguish between Type A and Type B federal programs: | \$750,000 |
| 6. | Auditee qualified as a low-risk auditee under 2 CFR section 200.520? | Yes |

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2019

PART II: FINDINGS – FINANCIAL STATEMENT

None reported.

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2019

PART III: FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM

None reported.

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2018

PART IV: STATUS OF PRIOR YEAR FINDINGS

None reported.