

# **KidsTLC, Inc. and its Subsidiary**

Auditor's Report and Consolidated Financial Statements

December 31, 2014 and 2013



**KidsTLC, Inc. and its Subsidiary**  
**December 31, 2014 and 2013**

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## Independent Auditor's Report

Board of Directors  
KidsTLC, Inc. and its Subsidiary  
Olathe, Kansas

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of KidsTLC, Inc. and its Subsidiary, which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses 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 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 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 risks 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 KidsTLC, Inc. and its Subsidiary as of December 31, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Prior Year Audited by Other Auditors***

The 2013 consolidated financial statements were audited by other auditors and their report thereon, dated June 8, 2014, expressed an unmodified opinion.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information, as listed in the table of contents, is 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.

**BKD, LLP**

Kansas City, Missouri  
April 30, 2015

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Statement of Financial Position**  
**December 31, 2014**

**Assets**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 308,406	\$ 1,327,917	\$ 35,108	\$ 1,671,431
Accounts receivable, net of allowance of \$53,000	1,137,407	-	-	1,137,407
Contributions receivable	-	572,461	-	572,461
Other receivables	6,522	-	-	6,522
Prepaid expenses	114,392	-	-	114,392
Inventories	34,419	5,954	-	40,373
	<u>1,601,146</u>	<u>1,906,332</u>	<u>35,108</u>	<u>3,542,586</u>
Total current assets				
	<u>1,601,146</u>	<u>1,906,332</u>	<u>35,108</u>	<u>3,542,586</u>
<b>Investments</b>	<u>3,218,080</u>	<u>238,574</u>	<u>542,046</u>	<u>3,998,700</u>
<b>Property and Equipment, at Cost</b>				
Land	662,301	189,745	-	852,046
Building and improvements	4,354,706	12,766,659	-	17,121,365
Furniture and equipment	875,040	939,323	-	1,814,363
Automotive equipment	163,227	11,112	-	174,339
	<u>6,055,274</u>	<u>13,906,839</u>	<u>-</u>	<u>19,962,113</u>
Less accumulated depreciation	1,657,798	1,989,607	-	3,647,405
	<u>4,397,476</u>	<u>11,917,232</u>	<u>-</u>	<u>16,314,708</u>
Property and equipment, net				
	<u>4,397,476</u>	<u>11,917,232</u>	<u>-</u>	<u>16,314,708</u>
<b>Contributions Receivable</b>	<u>-</u>	<u>306,901</u>	<u>-</u>	<u>306,901</u>
<b>Other Assets</b>				
Deposits	13,184	-	-	13,184
Goodwill	50,000	-	-	50,000
	<u>63,184</u>	<u>-</u>	<u>-</u>	<u>63,184</u>
Total assets	<u>\$ 9,279,886</u>	<u>\$ 14,369,039</u>	<u>\$ 577,154</u>	<u>\$ 24,226,079</u>

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Statement of Financial Position**  
**December 31, 2014**

**Liabilities and Net Assets**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 234,999	\$ 20,333	\$ -	\$ 255,332
Accounts payable	539,457	-	-	539,457
Accrued expenses	526,829	-	-	526,829
Unearned grant revenue	-	6,145	-	6,145
	<u>1,301,285</u>	<u>26,478</u>	<u>-</u>	<u>1,327,763</u>
Total current liabilities				
<b>Long-Term Liabilities</b>				
Long-term debt	<u>1,764,793</u>	<u>1,960,489</u>	<u>-</u>	<u>3,725,282</u>
Total liabilities	<u>3,066,078</u>	<u>1,986,967</u>	<u>-</u>	<u>5,053,045</u>
<b>Net Assets</b>				
Unrestricted	6,213,808	-	-	6,213,808
Temporarily restricted	-	12,382,072	-	12,382,072
Permanently restricted	-	-	577,154	577,154
	<u>6,213,808</u>	<u>12,382,072</u>	<u>577,154</u>	<u>19,173,034</u>
Total net assets				
Total liabilities and net assets	<u>\$ 9,279,886</u>	<u>\$ 14,369,039</u>	<u>\$ 577,154</u>	<u>\$ 24,226,079</u>

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Statement of Financial Position**  
**December 31, 2013**

**Assets**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 362,078	\$ 862,566	\$ 16,720	\$ 1,241,364
Accounts receivable, net of allowance of \$8,000	892,452	-	-	892,452
Contributions receivable	-	679,932	-	679,932
Other receivables	21	-	-	21
Prepaid expenses	121,821	-	-	121,821
Inventories	27,475	5,954	-	33,429
	<u>1,403,847</u>	<u>1,548,452</u>	<u>16,720</u>	<u>2,969,019</u>
Total current assets				
	<u>1,403,847</u>	<u>1,548,452</u>	<u>16,720</u>	<u>2,969,019</u>
<b>Investments</b>	<u>3,241,531</u>	<u>204,553</u>	<u>560,434</u>	<u>4,006,518</u>
<b>Property and Equipment, at Cost</b>				
Land	662,300	189,745	-	852,045
Building and improvements	4,302,024	12,766,657	-	17,068,681
Furniture and equipment	789,239	939,323	-	1,728,562
Automotive equipment	216,838	11,112	-	227,950
	<u>5,970,401</u>	<u>13,906,837</u>	<u>-</u>	<u>19,877,238</u>
Less accumulated depreciation	<u>1,510,658</u>	<u>1,447,457</u>	<u>-</u>	<u>2,958,115</u>
	<u>4,459,743</u>	<u>12,459,380</u>	<u>-</u>	<u>16,919,123</u>
Property and equipment, net				
	<u>4,459,743</u>	<u>12,459,380</u>	<u>-</u>	<u>16,919,123</u>
<b>Contributions Receivable</b>	<u>-</u>	<u>750,461</u>	<u>-</u>	<u>750,461</u>
<b>Other Assets</b>				
Deposits	8,965	-	-	8,965
Goodwill	50,000	-	-	50,000
	<u>58,965</u>	<u>-</u>	<u>-</u>	<u>58,965</u>
Total assets	<u>\$ 9,164,086</u>	<u>\$ 14,962,846</u>	<u>\$ 577,154</u>	<u>\$ 24,704,086</u>

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Statement of Financial Position**  
**December 31, 2013**

**Liabilities and Net Assets**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Current Liabilities</b>				
Lines of credit	\$ 300,000	\$ -	\$ -	\$ 300,000
Current maturities of long-term debt	21,767	261,256	-	283,023
Accounts payable	288,100	10,011	-	298,111
Accrued expenses	651,440	-	-	651,440
	<u>1,261,307</u>	<u>271,267</u>	<u>-</u>	<u>1,532,574</u>
Total current liabilities				
<b>Long-Term Liabilities</b>				
Long-term debt	2,014,446	1,960,489	-	3,974,935
	<u>3,275,753</u>	<u>2,231,756</u>	<u>-</u>	<u>5,507,509</u>
Total liabilities				
<b>Net Assets</b>				
Unrestricted	5,888,333	-	-	5,888,333
Temporarily restricted	-	12,731,090	-	12,731,090
Permanently restricted	-	-	577,154	577,154
	<u>5,888,333</u>	<u>12,731,090</u>	<u>577,154</u>	<u>19,196,577</u>
Total net assets				
Total liabilities and net assets	<u>\$ 9,164,086</u>	<u>\$ 14,962,846</u>	<u>\$ 577,154</u>	<u>\$ 24,704,086</u>



**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Statement of Activities and Changes in Net Assets**  
**Year Ended December 31, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues, Gains and Other Support</b>				
Program revenue	\$ 10,315,654	\$ -	\$ -	\$ 10,315,654
Contributions	437,049	782,907	-	1,219,956
Grants	288,576	-	-	288,576
Fund raising	621,647	-	-	621,647
Investment income	246,415	5	-	246,420
Other revenues	217,722	-	-	217,722
Net assets released from restrictions	1,131,930	(1,131,930)	-	-
	<u>13,258,993</u>	<u>(349,018)</u>	<u>-</u>	<u>12,909,975</u>
Total revenues, gains and other support				
<b>Expenses</b>				
Program services	10,701,543	-	-	10,701,543
Management and general	1,311,554	-	-	1,311,554
Fund raising	920,421	-	-	920,421
	<u>12,933,518</u>	<u>-</u>	<u>-</u>	<u>12,933,518</u>
Total expenses				
<b>Increase (Decrease) in Net Assets</b>	325,475	(349,018)	-	(23,543)
<b>Net Assets, Beginning of Year</b>	<u>5,888,333</u>	<u>12,731,090</u>	<u>577,154</u>	<u>19,196,577</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 6,213,808</u></u>	<u><u>\$ 12,382,072</u></u>	<u><u>\$ 577,154</u></u>	<u><u>\$ 19,173,034</u></u>

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Statement of Activities and Changes in Net Assets**  
**Year Ended December 31, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues, Gains and Support</b>				
Program revenue	\$ 7,345,763	\$ -	\$ -	\$ 7,345,763
Contributions	488,751	1,100,558	-	1,589,309
Grants	364,772	-	-	364,772
Fund raising	612,795	-	-	612,795
Investment income	210,829	56,742	-	267,571
Other revenues	201,292	-	-	201,292
Net assets released from restrictions	1,011,419	(1,011,419)	-	-
	<u>10,235,621</u>	<u>145,881</u>	<u>-</u>	<u>10,381,502</u>
Total revenues, gains and other support				
<b>Expenses</b>				
Program services	9,315,340	-	-	9,315,340
Management and general	1,062,155	-	-	1,062,155
Fund raising	1,081,080	-	-	1,081,080
	<u>11,458,575</u>	<u>-</u>	<u>-</u>	<u>11,458,575</u>
Total expenses				
<b>Increase (Decrease) in Net Assets</b>	(1,222,954)	145,881	-	(1,077,073)
<b>Net Assets, Beginning of Year</b>	<u>7,111,287</u>	<u>12,585,209</u>	<u>577,154</u>	<u>20,273,650</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 5,888,333</u></u>	<u><u>\$ 12,731,090</u></u>	<u><u>\$ 577,154</u></u>	<u><u>\$ 19,196,577</u></u>

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Activities</b>		
Change in net assets	\$ (23,543)	\$ (1,077,073)
Items not requiring (providing) operating cash flows		
Depreciation	775,185	692,694
Unrealized gains on investments	(10,597)	(46,674)
Realized gains on sale of investments	(18,438)	(86,461)
Contributions of property and equipment	(3,600)	(269,324)
Contributions of investments	-	(19,711)
Gain on disposal of property and equipment	(19,822)	(3,000)
Restricted contributions received	(68,712)	(369,804)
Changes in		
Accounts receivable	(244,955)	(227,565)
Other accounts receivable	(6,501)	-
Prepaid expenses and deposits	3,210	(37,122)
Inventories	(6,944)	14,039
Accounts payable	241,346	(351,389)
Accrued liabilities	(124,611)	29,394
Other liabilities	6,145	-
	<u>498,163</u>	<u>(1,751,996)</u>
Net cash provided by (used in) operating activities		
<b>Investing Activities</b>		
Payment for acquisition of KCBA	-	(50,000)
Purchase of investments	(329,557)	(1,037,469)
Proceeds from disposition of investments	366,410	1,132,358
Purchase of property and equipment	(189,148)	(3,202,142)
Proceeds from disposition of property and equipment	41,800	3,000
	<u>(110,495)</u>	<u>(3,154,253)</u>
Net cash used in investing activities		
<b>Financing Activities</b>		
Restricted contributions received	619,743	1,350,262
Proceeds from issuance of long-term debt	-	4,338,255
Net borrowing (repayment) on lines of credit	(300,000)	300,000
Principal payments on long-term debt	(277,344)	(1,052,127)
	<u>42,399</u>	<u>4,936,390</u>
Net cash provided by financing activities		
<b>Net Change in Cash and Cash Equivalents</b>	430,067	30,141
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,241,364</u>	<u>1,211,223</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,671,431</u>	<u>\$ 1,241,364</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 107,450	\$ 80,407
Capital lease incurred for purchase of equipment	-	13,255
Long-term debt incurred for purchase of property and equipment	-	2,996,125

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Schedule of Functional Expenses**  
**Year Ended December 31, 2014**

	PRTF	Behavioral Health	Autism	Street Outreach Program	Chaplaincy	Sanctuary	Total Program Expense
Salaries	\$5,078,595	\$ 732,771	\$ 741,840	\$ 89,967	\$ 62,329	\$ 19,630	\$ 6,725,132
Payroll taxes	451,157	59,148	63,824	8,243	3,934	1,795	588,101
Employee benefits	697,486	76,439	86,232	11,148	14,247	1,441	886,993
Temporary staffing	5,725	13,072	581	51	34	-	19,463
Staff development	27,331	5,593	3,317	412	527	32	37,212
Insurance	133,315	11,848	20,112	4,000	998	-	170,273
Utilities and janitorial	120,643	16,818	25,064	1,325	981	-	164,831
Depreciation	425,545	112,192	110,309	5,364	3,468	-	656,878
Repairs and maintenance	41,735	3,457	6,908	361	358	-	52,819
Rent expense	-	-	-	-	-	-	-
Communications	26,728	4,004	4,087	2,254	731	-	37,804
Professional services	397,479	99,192	21,563	3,148	913	51	522,346
Consultant	43,632	18,542	50,909	-	-	-	113,083
Contract services	21,452	2,578	4,054	273	161	-	28,518
Equipment repairs	22,762	4,126	3,160	415	60	-	30,523
Small equipment	38,040	1,771	1,079	72	1,254	-	42,216
Travel/vehicle expenses	23,655	5,587	7,610	3,733	3,287	553	44,425
Printing	880	532	419	60	27	-	1,918
Supplies	25,199	4,264	21,403	400	1,686	37	52,989
Postage	1,529	897	173	32	3	-	2,634
Dues	6,658	494	1,059	142	166	-	8,519
Subscriptions	8,212	1,192	7,389	12	43	-	16,848
Advertising	5,501	866	3,793	115	1	-	10,276
Licenses	7,340	1,576	420	62	74	-	9,472
Food	195,526	-	-	733	-	-	196,259
Other client expenses	70,557	-	3,360	610	-	-	74,527
Household supplies	14,010	755	1,222	122	64	-	16,173
Medical	8,932	-	-	-	8	-	8,940
Flex-plan	5	-	440	315	-	-	760
Fund raising events	-	-	-	4,008	-	-	4,008
Bad debt expense	70,644	50,727	51,681	-	-	-	173,052
Donor and volunteer recognition	324	83	83	-	-	-	490
Investment fees	1	-	1,028	-	-	-	1,029
Interest expense	1,385	277	594	106	1	-	2,363
Miscellaneous	521	30	54	57	7	-	669
<b>Total Expenditures</b>	<b>\$7,972,504</b>	<b>\$ 1,228,831</b>	<b>\$ 1,243,767</b>	<b>\$ 137,540</b>	<b>\$ 95,362</b>	<b>\$ 23,539</b>	<b>\$ 10,701,543</b>

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Schedule of Functional Expenses (Continued)**  
**Year Ended December 31, 2014**

	Fundraising				2014 Total
	Management & General	Fundraising Services	Charities	Capital Campaign	
Salaries	\$ 607,109	\$ 380,779	\$ 91,186	\$ 5,207	\$ 7,809,413
Payroll taxes	46,997	31,432	7,790	479	674,799
Employee benefits	63,389	36,807	23,002	276	1,010,467
Temporary staffing	3,233	498	-	2	23,196
Staff development	2,272	395	24	7	39,910
Insurance	29,254	9,113	274	140	209,054
Utilities and janitorial	28,947	6,214	76	36	200,104
Depreciation	95,236	22,104	596	371	775,185
Repairs and maintenance	12,195	1,809	22	10	66,855
Rent expense	2,031	-	-	-	2,031
Communications	11,218	1,775	1,055	77	51,929
Professional services	116,798	14,745	3,928	3,466	661,283
Consultant	85,081	26,221	-	-	224,385
Contract services	13,933	2,551	1,264	23	46,289
Equipment repairs	8,383	2,048	91	63	41,108
Small equipment	12,647	1,846	13	6	56,728
Travel/vehicle expenses	18,908	5,586	1,504	86	70,509
Printing	288	14,037	378	2	16,623
Supplies	14,080	1,864	417	53	69,403
Postage	1,274	4,390	92	88	8,478
Dues	2,713	2,012	53	19	13,316
Subscriptions	225	907	4	2	17,986
Advertising	533	17,814	26	1	28,650
Licenses	261	162	19	10	9,924
Food	1,606	-	-	-	197,865
Other client expenses	78	5	-	-	74,610
Household supplies	2,997	737	-	13	19,920
Medical	-	-	-	-	8,940
Flex-plan	-	-	-	-	760
Fund raising events	-	152,414	5,479	-	161,901
Bad debt expense	-	-	-	-	173,052
Donor and volunteer recognition	1,521	4,415	-	-	6,426
Investment fees	22,270	8,548	20,706	74	52,627
Interest expense	104,561	506	1	20	107,451
Miscellaneous	1,516	(381)	85	452	2,341
Total Expenditures	\$ 1,311,554	\$ 751,353	\$ 158,085	\$ 10,983	\$ 12,933,518

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Schedule of Functional Expenses**  
**Year Ended December 31, 2013**

	<b>PRTF</b>	<b>Family Case Management</b>	<b>Behavioral Health</b>	<b>Autism</b>	<b>Street Outreach Program</b>	<b>Resource Family Services</b>	<b>Chaplaincy</b>	<b>Total Program Expense</b>
Salaries	\$ 4,597,374	\$ 51,935	\$ 389,267	\$ 381,711	\$ 107,503	\$ 102,458	\$ 52,044	\$ 5,682,292
Payroll taxes	426,922	5,239	32,451	34,909	9,168	10,551	3,660	522,900
Employee benefits	600,683	7,987	31,702	43,949	19,113	7,094	10,813	721,341
Temporary staffing	55	-	3	3	-	-	-	61
Staff development	49,762	1,077	6,257	3,316	466	1,044	28	61,950
Insurance	106,342	162	13,389	19,432	4,042	2,664	740	146,771
Utilities and janitorial	112,483	36	11,110	15,181	2,512	1,852	972	144,146
Depreciation	435,566	1,103	59,583	60,098	10,935	5,058	4,126	576,469
Repairs and maintenance	41,199	5	1,546	1,995	744	487	321	46,297
Rent expense	1,800	-	-	-	-	-	-	1,800
Communications	28,145	439	2,544	3,480	3,938	4,756	750	44,052
Professional services	491,791	1,082	36,766	20,306	3,697	2,137	1,167	556,946
Consultant	36,684	250	144	360	52	252	12	37,754
Contract services	12,343	12	1,918	2,527	2,040	1,430	89	20,359
Placement payments	-	-	-	-	-	149,280	-	149,280
Equipment repairs	16,925	2	2,020	2,286	424	3	72	21,732
Small equipment	32,076	39	6,683	19,215	108	68	51	58,240
Travel/vehicle expenses	17,838	1,629	6,462	3,743	3,650	1,995	1,967	37,284
Printing	1,875	1	91	7	495	2	-	2,471
Supplies	41,663	127	3,215	28,473	386	17,304	1,777	92,945
Postage	1,482	15	86	85	8	127	2	1,805
Dues	6,778	50	253	541	161	87	121	7,991
Subscriptions	1,516	-	297	2,148	(37)	(95)	9	3,838
Advertising	4,607	-	442	1,918	756	356	2	8,081
Licenses	7,575	65	669	568	130	115	94	9,216
Food	148,809	144	-	187	138	110	85	149,473
Other client expenses	69,202	100	2,006	251	1,081	2,487	4	75,131
Household supplies	12,430	-	48	254	26	-	18	12,776
Medical	8,766	-	164	192	-	-	56	9,178
Flex-plan	230	-	-	-	1,394	370	-	1,994
Fund raising events	-	-	-	783	1,627	-	-	2,410
Bad debt expense	66,966	-	8,361	-	-	328	-	75,655
Donor and volunteer recognition	-	-	-	-	-	-	-	-
Investment fees	812	-	233	248	2	1	3	1,299
Interest expense	12,542	5	7,923	9,569	186	96	38	30,359
Miscellaneous	610	-	94	320	23	(3)	-	1,044
<b>Total Expenditures</b>	<b>\$ 7,393,851</b>	<b>\$ 71,504</b>	<b>\$ 625,727</b>	<b>\$ 658,055</b>	<b>\$ 174,768</b>	<b>\$ 312,414</b>	<b>\$ 79,021</b>	<b>\$ 9,315,340</b>

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Schedule of Functional Expenses (Continued)**  
**Year Ended December 31, 2013**

	<u>Fundraising</u>				2013 Total
	<u>Management &amp; General</u>	<u>Fundraising Services</u>	<u>Charities</u>	<u>Capital Campaign</u>	
Salaries	\$ 587,389	\$ 430,167	\$ 79,631	\$ 9,563	\$ 6,789,042
Payroll taxes	41,663	36,347	5,685	2,181	608,776
Employee benefits	68,454	45,780	4,604	1,128	841,307
Temporary staffing	1,210	21	-	3	1,295
Staff development	2,790	1,721	144	(38)	66,567
Insurance	22,423	6,946	223	93	176,456
Utilities and janitorial	23,671	5,751	195	56	173,819
Depreciation	91,341	23,292	1,078	514	692,694
Repairs and maintenance	3,637	879	25	3	50,841
Rent expense	1,985	-	-	-	3,785
Communications	6,205	3,738	781	421	55,197
Professional services	92,317	18,810	4,036	10,924	683,033
Consultant	128	52,821	7	6	90,716
Contract services	8,752	1,595	44	5	30,755
Placement payments	-	-	-	-	149,280
Equipment repairs	3,539	5,571	38	91	30,971
Small equipment	2,376	2,769	30	12	63,427
Travel/vehicle expenses	14,297	9,952	898	504	62,935
Printing	26	15,347	-	5,001	22,845
Supplies	12,134	5,500	68	210	110,857
Postage	1,515	7,077	8	233	10,638
Dues	2,345	3,005	204	66	13,611
Subscriptions	944	942	48	-	5,772
Advertising	670	54,833	147	2,731	66,462
Licenses	415	290	-	44	9,965
Food	839	148	-	-	150,460
Other client expenses	-	-	-	-	75,131
Household supplies	119	70	-	4	12,969
Medical	-	-	-	-	9,178
Flex-plan	-	-	-	-	1,994
Fund raising events	-	160,262	-	852	163,524
Bad debt expense	230	11,314	-	7,263	94,462
Donor and volunteer recognition	1,294	3,216	-	-	4,510
Investment fees	18,943	7,000	24,928	48	52,218
Interest expense	49,109	837	13	89	80,407
Miscellaneous	1,395	167	66	4	2,676
<b>Total Expenditures</b>	<b>\$ 1,062,155</b>	<b>\$ 916,168</b>	<b>\$122,901</b>	<b>\$ 42,011</b>	<b>\$ 11,458,575</b>

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

TLC for Children and Families, Inc. was formed in 1970 as a not-for-profit 501(c)(3) organization in the state of Kansas. In July of 2011, TLC for Children and Families, Inc. changed its name to KidsTLC, Inc. (KidsTLC). KidsTLC's mission is to provide opportunities that encourage positive growth and change for children, youth and families while ensuring a safe environment.

TLC Charities Foundation (Foundation) was formed in 2003 to encourage private philanthropy to further the vision, values and goals of KidsTLC. Planned gifts to TLC Charities Foundation enable KidsTLC to continue its long tradition of providing social services to children and youth who are facing abuse, neglect or family disruption.

***Principles of Consolidation***

KidsTLC is the sole corporate member of the Foundation, collectively referred to as the Organization. The accompanying consolidated financial statements include the accounts of KidsTLC and the Foundation. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Program Services***

Psychiatric Residential Treatment Facility

KidsTLC provides behavior management and residential and therapeutic treatment services, which include individual and family counseling, educational and vocational training, life skills, mentoring, and organized recreation to youth ages 6 to 18. In June 2010, KidsTLC added a Psychiatric Residential Treatment program Facility (PRTF) for youth with more acute issues needing more intensive treatment and supervision. Due to the success of this program, all PRTF services are using the Phoenix treatment model.

Family Case Management

The remaining program from the original group of community based services provided by KidsTLC is Family Case Management. The Family Case Management program is designed for families experiencing both domestic violence/child in need of care issues at the same time. This program allows clients the opportunity to set goals and build on strengths they already possess in order to make positive changes in their lives with the objective of preventing further involvement in the child welfare system.

Outpatient Behavioral Health Services

The Outpatient Behavioral Health Services program began offering services in August 2012. The program provides therapeutic and psychiatric services including individual therapy, family therapy, group therapy, medication evaluations and management, parental education and support groups.



**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

Autism Services

KidsTLC provides limited high quality services for children with autism spectrum disorders. Services include clinical assessments, group and individual intervention programs and ongoing education and training opportunities for families with children on the autism spectrum. KidsTLC began offering autism services in July 2013.

Street Outreach Services

The Street Outreach Services program takes essential services to the streets of Johnson County, Kansas and Jackson County, Missouri by providing food, personal hygiene supplies, educational materials, emergency shelter, situational counseling, crisis intervention, and referrals to youth who have run away, been forced out of their homes or are otherwise homeless. This program is aimed at moving these youth from the dangerous streets into a safe, stable environment.

Resource Family Services

KidsTLC's Resource Family Services provided safe, quality foster care to children ages infant through 17 years when they could not remain in their homes because of abuse, neglect or family disruption. This program was discontinued July 1, 2013.

Chaplaincy Services

KidsTLC's Chaplaincy program is available to clients and staff who seek spiritual guidance. The Chaplaincy Program provides youth group activities and assists youth who need transportation and/or supervision in order to attend church services at their chosen faith based organization.

***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, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

The Organization considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At December 31, 2014 and 2013, cash equivalents consisted primarily of money market accounts.

At December 31, 2014, the Organization's cash accounts exceeded federally insured limits by approximately \$1,038,000.

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Organization maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

***Accounts Receivable***

The Organization reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Organization provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Organization bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

The Organization has accounts receivable for services provided under its PRTF program, which require payments first by third party liability insurance carriers or parents/guardians, then by Medicaid. The Organization has established an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building	25-40 years
Leasehold improvements	25-40 years
Machinery and equipment	3-5 years
Furniture and fixtures	5-7 years
Motor vehicles	3-5 years

***Long-lived Asset Impairment***

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2014 and 2013.

***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. It is the Organization's policy to imply a time restriction, based on the assets' estimated useful lives, on donations of property and equipment that are not restricted as their use by the donor. Accordingly,

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

those donations are recorded as support increasing temporarily restricted net assets. The Organization reclassifies temporarily restricted net assets to unrestricted net assets each year in the amount of the donated property and equipment's depreciation expense.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

***In-kind Contributions***

In addition to receiving cash contributions, the Organization receives in-kind contributions of property and services from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its consolidated financial statements, and similarly increase contribution revenue by a like amount. For the years ended December 31, 2014 and 2013, \$154,861 and \$163,066, respectively, was received in in-kind contributions.

The Organization receives in-kind professional services from two members of the Board of Directors. The value of these services was approximately \$21,000 and \$12,000, respectively, for years ended December 31, 2014 and 2013.

***Inventory Pricing***

Inventories consist of donated gift cards, donated clothing and other miscellaneous donated goods. The inventory is valued at its estimated fair value at the date of the donation.

***Government Grants***

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

***Goodwill***

The Organization's goodwill was recorded as a result of the purchase of Kansas City Behavior Analysts (KCBA) during the year ended December 31, 2013. The Organization has recorded this business combination using the acquisition method of accounting. Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

***Income Taxes***

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income. The Organization files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Organization is no longer subject to U.S. federal examinations by tax authorities for years before 2011.

***Deferred Revenue***

Revenue from fees for patient services received in advance is deferred and recognized as actual patient services are provided.

***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. Certain costs have been allocated among the program, management and general and fund raising categories based on management's best estimate of the effort or cost expended and other methods.

***Transfers Between Fair Value Hierarchy Levels***

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

***Reclassifications***

Certain reclassifications have been made to the 2013 consolidated financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net assets.

***Subsequent Events***

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**Note 2: Contributions Receivable**

Contributions receivable consisted of the following at a discount rate of 5%:

	<b>2014</b>	<b>2013</b>
Due in less than one year	\$ 602,591	\$ 715,719
Due in one to five years	357,048	889,134
	<u>959,639</u>	<u>1,604,853</u>
Less		
Unamortized discounts	32,295	94,217
Estimated allowance for uncollectible pledges	47,982	80,243
	<u>\$ 879,362</u>	<u>\$ 1,430,393</u>

**Note 3: Investments and Investment Return**

A summary of the composition of KidsTLC's investment portfolio at December 31, 2014 and 2013 consisted of the following:

	<b>2014</b>	<b>2013</b>
Mutual funds invested in equity securities	\$ 1,208,304	\$ 1,265,982
Mutual funds invested in debt securities		
MFS Research Bond Fund	481,196	473,380
Metropolitan West Total Return Fund	486,500	471,785
PIMCO Total Return Fund	939,732	937,759
TCW Total Return Fund	230,851	221,612
JP Morgan Core Bond Fund	264,410	254,932
Other mutual funds invested in debt securities	249,630	254,124
Greater Kansas City Community Foundation	138,077	126,944
	<u>\$ 3,998,700</u>	<u>\$ 4,006,518</u>
Total Investments		

The Organization reports investments in equity and debt securities at fair value. Fair value is determined primarily on the basis of quoted market prices.

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
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The following schedule summarizes investment return and its classification in the consolidated statements of activities for the years ended December 31, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Interest and dividends	\$ 217,385	\$ 134,436
Realized gains on sale of investments	18,438	86,461
Unrealized gains on securities	10,597	46,674
Total return on investments	\$ 246,420	\$ 267,571

**Note 4: Beneficial Interest in Assets Held by Others**

The Organization has a beneficial interest in assets transferred to The Greater Kansas City Community Foundation. The Organization is to receive the interest and principal as requested. The cumulative amount of the retained beneficial interest included in the consolidated statements of financial position as assets limited as to use internally designated was \$138,077 and \$126,944 at December 31, 2014 and 2013, respectively. The assets are invested primarily in pooled bond and equity funds.

**Note 5: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

**KidsTLC, Inc. and its Subsidiary**  
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The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2014 and 2013:

<b>2014</b>	<b>Fair Value</b>	<b>Fair Value Measurements at Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Mutual funds invested in equity securities	\$ 1,208,304	\$ 1,208,304	\$ -	\$ -
Mutual funds invested in debt securities				
MFS Research Bond Fund	481,196	481,196	-	-
Metropolitan West Total	486,500	486,500	-	-
PIMCO Total Return Fund	939,732	939,732	-	-
TCW Total Return Fund	230,851	230,851	-	-
JP Morgan Core Bond Fund	264,410	264,410	-	-
Other mutual funds invested in debt securities	249,630	249,630	-	-
Greater Kansas City Community Foundation	138,077	-	138,077	-
Total	<u>\$ 3,998,700</u>	<u>\$ 3,860,623</u>	<u>\$ 138,077</u>	<u>\$ -</u>



**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

2013	Fair Value	Fair Value Measurements at Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds invested in equity securities	\$ 1,265,982	\$ 1,265,982	\$ -	\$ -
Mutual funds invested in debt securities				
MFS Research Bond Fund	473,380	473,380	-	-
Metropolitan West Total	471,785	471,785	-	-
PIMCO Total Return Fund	937,759	937,759	-	-
TCW Total Return Fund	221,612	221,612	-	-
JP Morgan Core Bond Fund	254,932	254,932	-	-
Other mutual funds invested in debt securities	254,124	254,124	-	-
Greater Kansas City Community Foundation	126,944	-	126,944	-
Total	<u>\$ 4,006,518</u>	<u>\$ 3,879,574</u>	<u>\$ 126,944</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2014. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below. The Organization does not have any level 3 securities.

**Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which the Organization expects

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
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to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2.

***Beneficial Interest in Assets Held by Others***

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy for 2014 and 2013.

**Note 6: Line of Credit**

At December 31, 2014, the Organization had access to a line of credit with an investment company with a maximum available limit of \$2,164,702 and \$1,598,950 at December 31, 2014 and 2013, respectively (based on investments at that time). The line of credit has no maturity date; however the investment company can call for the payment of the line-of-credit upon certain conditions. This line of credit was collateralized by investments held with the investment company. As of December 31, 2014 and 2013, there was \$0 and \$300,000, respectively, outstanding against the line.

**Note 7: Long-term Debt**

	<b>2014</b>	<b>2013</b>
Notes payable (A)	\$ -	\$ 20,934
Bond payable (B)	3,954,420	4,195,343
Capital lease obligations (C)	26,194	41,681
	3,980,614	4,257,958
Less current maturities	255,332	283,023
	\$ 3,725,282	\$ 3,974,935

(A) During 2009, KidsTLC entered into a 60 month note payable with a commercial bank to finance the purchase of a vehicle. The note required monthly payments of \$483. The interest rate was 5.9%. On March 30, 2012, this vehicle was traded in towards a new vehicle, with the prior remaining note balance rolled into a new note. The new note requires monthly payments of \$523 at an interest rate of 0.0%. The note was paid off in advance during 2014.

(B) Effective August 1, 2013, the City of Olathe, Kansas issued its lease Revenue Bonds, Series 2013 (TLC for Children and Families, Inc.) in an aggregate principal amount of \$4,250,000, for the purpose of acquiring, constructing, reconstructing and equipping certain physical and mental health facilities on KidsTLC's campus, and for paying certain

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
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costs associated with the issuance of the bonds. Lease payments are the sum of principal and interest payments of \$28,060 monthly for 15 years which includes accrued interest on the outstanding balance at an annual interest rate of 2.345%. The interest rate is fixed until August 31, 2017 and then KidsTLC has the option to renew the interest rate based on an interest rate period of 3, 4 or 5 years. The bonds are collateralized by KidsTLC's main campus property.

- (C) The above capital leases include administrative equipment expiring at various dates through 2017.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2014 are:

	<b>Long-Term Debt (Exc. Leases)</b>	<b>Capital Lease Obligations</b>
2015	\$ 246,634	\$ 10,840
2016	252,480	10,840
2017	258,465	8,274
2018	264,592	-
2019	270,863	-
Thereafter	<u>2,661,386</u>	<u>-</u>
	<u>\$ 3,954,420</u>	29,954
Less amount representing interest		<u>3,760</u>
Present value of future minimum lease payments		<u>\$ 26,194</u>

Equipment includes the following property under capital leases:

	<b>2014</b>	<b>2013</b>
Equipment	\$ 40,301	\$ 66,813
Less accumulated depreciation	<u>15,246</u>	<u>28,837</u>
	<u>\$ 25,055</u>	<u>\$ 37,976</u>

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
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**Note 8: Net Assets**

***Board Designated Funds***

The Board of Directors has designated certain funds as endowment funds as a means of future support for KidsTLC and its programs. Certain other reserves have been established by the Board as operating or program reserves. These endowment and operating reserve funds are managed by the trust department of a bank and consist of a portion of the investments described in Note 3, plus money market funds included in the category of cash and cash equivalents on the consolidated statements of financial position. Absent some other annual direction by the Board of Directors, earnings on these endowment and operating reserve funds are added to the endowment or operating reserve respectively.

In prior years unrestricted funds from an anonymous contributor were designated to be used for the fulfillment of the funding requirements of a capital campaign, along with associated earnings on the assets. At December 31, 2014, the value of these assets consisted of the net book value of the property and equipment acquired with these funds.

In 2007 and 2008, KidsTLC sold community homes received from Keys Youth Services, Inc. and Optimist Youth Homes, Inc., and earmarked the proceeds of the sales to acquire property for future expansion. In 2008, \$365,179 was designated as an additional operating reserve, invested in interest bearing cash equivalents. The Board designated the remainder of the assets to be used to fulfill funding requirements of KidsTLC Bringing Our Children Home – Continuing Our Journey Capital Campaign. These assets have been largely used toward the acquisition of property adjacent to KidsTLC’s campus; the remainder is invested in interest bearing cash equivalents. Interest earnings on both the additional operating reserve and the cash equivalents designated for the Bringing Our Children Home: Continuing Our Journey Capital Campaign remain unrestricted in accordance with the Board’s original instructions.

Board designated net assets at December 31 are available for the following purposes or periods:

	<u>2014</u>	<u>2013</u>
Endowment reserve	\$ 300,005	\$ 374,969
Operating reserve	783,927	744,688
Program reserve	709,992	674,555
Capital campaign	2,063,755	2,125,613
Operating reserve - established in 2008	365,178	365,178
Bringing Our Children Home: Continuing Our Journey Capital campaign	<u>168,622</u>	<u>168,622</u>
	<u>\$ 4,391,479</u>	<u>\$ 4,453,625</u>

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

***Temporarily Restricted Net Assets***

Temporarily restricted net assets at December 31 are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Capital campaign	\$ 5,594,488	\$ 5,754,861
Bringing Our Children Home: Continuing Our Journey		
Capital campaign	6,158,072	6,486,193
Designated contributions	375,528	276,047
Beneficial interest in community foundation	112,580	108,015
Chaplaincy endowment	<u>141,404</u>	<u>105,974</u>
	<u>\$ 12,382,072</u>	<u>\$ 12,731,090</u>

***Permanently Restricted Net Assets***

Permanently restricted net assets at December 31 are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Chaplaincy endowment	\$ 546,919	\$ 546,919
Beneficial interest in community foundation	25,497	25,497
Other endowment funds	<u>4,738</u>	<u>4,738</u>
	<u>\$ 577,154</u>	<u>\$ 577,154</u>

**Note 9: Endowment**

The Organization's endowment consists of multiple funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's governing body has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Organization and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Organization
7. Investment policies of the Organization

The composition of net assets by type of endowment fund at December 31, 2014 and 2013 was:

	<b>2014</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 156,742	\$ 577,154	\$ 733,896
Board-designated endowment funds	300,005	-	-	300,005
Total Endowment Funds	\$ 300,005	\$ 156,742	\$ 577,154	\$ 1,033,901

	<b>2013</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 120,057	\$ 577,154	\$ 697,211
Board-designated endowment funds	374,969	-	-	374,969
Total Endowment Funds	\$ 374,969	\$ 120,057	\$ 577,154	\$ 1,072,180

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

Changes in endowment net assets for the years ended December 31, 2014 and 2013 were:

	<b>2014</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment net assets, beginning of year	\$ 374,969	\$ 120,057	\$ 577,154	\$ 1,072,180
Investment return				
Investment income	14,305	33,335	-	47,640
Net appreciation	2,731	3,350	-	6,081
Total investment return	17,036	36,685	-	53,721
Appropriation of endowment assets for expenditure	(92,000)	-	-	(92,000)
Endowment net assets, end of year	<u>\$ 300,005</u>	<u>\$ 156,742</u>	<u>\$ 577,154</u>	<u>\$ 1,033,901</u>
	<b>2013</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 434,700	\$ 101,780	\$ 577,154	\$ 1,113,634
Investment return				
Investment income	9,390	15,498	-	24,888
Net appreciation	16,479	27,779	-	44,258
Total investment return	25,869	43,277	-	69,146
Appropriation of endowment assets for expenditure	(85,600)	(25,000)	-	(110,600)
Endowment net assets, end of year	<u>\$ 374,969</u>	<u>\$ 120,057</u>	<u>\$ 577,154</u>	<u>\$ 1,072,180</u>

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at December 31, 2014 and 2013 consisted of:

	<b>2014</b>	<b>2013</b>
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	<u>\$ 577,154</u>	<u>\$ 577,154</u>
Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under SPMIFA with purpose restrictions	<u>\$ 156,742</u>	<u>\$ 120,057</u>

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Organization must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Organization’s policies, endowment assets are invested in a manner that is intended to provide diversification among classes of investments and management strategies in a prudent approach and measured against an appropriate comparative benchmark.

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Organization has a policy (the spending policy) of appropriating for expenditure each year 5% of its endowment fund’s average fair value over the prior 5 years average year end proceeding the year in which expenditure is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow. This is consistent with the Organization’s objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.



**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**Note 10: Retirement Plan**

The Organization has a 401(k) retirement plan, under which all employees who have attained the age of 21 and have completed thirty days of service are eligible to participate. Eligible employees may elect to defer up to 20% of their wages, subject to statutory limitations. The Organization matches 100% of employee contributions up to 3% of employee wages and 50% of contributions over 3% up to 5% of employee wages. The employer contribution expense totaled \$154,259 and \$132,303 for 2014 and 2013, respectively.

**Note 11: Significant Estimates**

***Litigation***

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Organization's commercial insurance; for example, allegations regarding performance of contracts. The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

## **Supplementary Information**

**KidsTLC, Inc. and its Subsidiary**  
**Consolidating Schedule of Financial Position**  
**December 31, 2014**

	KidsTLC, Inc.	TLC Charities Foundation	Eliminations	Consolidated
<b>Current Assets</b>				
Cash and cash equivalents	\$ 1,596,812	\$ 74,619	\$ -	\$ 1,671,431
Accounts receivable, net of allowance of \$53,000	1,137,407	-	-	1,137,407
Contributions receivable	572,461	-	-	572,461
Other receivables	6,522	-	-	6,522
Due to/from affiliate	(1,531,657)	1,531,657	-	-
Prepaid expenses	114,392	-	-	114,392
Inventory	40,373	-	-	40,373
Total current assets	<u>1,936,310</u>	<u>1,606,276</u>	<u>-</u>	<u>3,542,586</u>
<b>Investments</b>	<u>2,934,001</u>	<u>1,064,699</u>	<u>-</u>	<u>3,998,700</u>
<b>Property and Equipment, at Cost</b>				
Land	852,046	-	-	852,046
Building and improvements	17,121,365	-	-	17,121,365
Furniture and equipment	1,814,363	-	-	1,814,363
Automotive equipment	174,339	-	-	174,339
	<u>19,962,113</u>	<u>-</u>	<u>-</u>	<u>19,962,113</u>
Less accumulated depreciation	3,647,405	-	-	3,647,405
Property and equipment, net	<u>16,314,708</u>	<u>-</u>	<u>-</u>	<u>16,314,708</u>
<b>Contributions Receivable</b>	<u>306,901</u>	<u>-</u>	<u>-</u>	<u>306,901</u>
<b>Other Assets</b>				
Deposits	13,184	-	-	13,184
Goodwill	50,000	-	-	50,000
	<u>63,184</u>	<u>-</u>	<u>-</u>	<u>63,184</u>
<b>Investment in Subsidiary</b>	<u>2,665,075</u>	<u>-</u>	<u>(2,665,075)</u>	<u>-</u>
Total assets	<u>\$ 24,220,179</u>	<u>\$ 2,670,975</u>	<u>\$ (2,665,075)</u>	<u>\$ 24,226,079</u>
<b>Current Liabilities</b>				
Accounts payable	\$ 533,557	\$ 5,900	\$ -	\$ 539,457
Accrued expenses	526,829	-	-	526,829
Unearned grant revenue	6,145	-	-	6,145
Current maturities of long-term debt	255,332	-	-	255,332
Total current liabilities	<u>1,321,863</u>	<u>5,900</u>	<u>-</u>	<u>1,327,763</u>
<b>Long-Term Liabilities</b>				
Long-term debt	3,725,282	-	-	3,725,282
Total liabilities	<u>5,047,145</u>	<u>5,900</u>	<u>-</u>	<u>5,053,045</u>
<b>Net Assets</b>				
Unrestricted	6,213,808	1,833,937	(1,833,937)	6,213,808
Temporarily restricted	12,382,072	253,984	(253,984)	12,382,072
Permanently restricted	577,154	577,154	(577,154)	577,154
Total net assets	<u>19,173,034</u>	<u>2,665,075</u>	<u>(2,665,075)</u>	<u>19,173,034</u>
Total liabilities and net assets	<u>\$ 24,220,179</u>	<u>\$ 2,670,975</u>	<u>\$ (2,665,075)</u>	<u>\$ 24,226,079</u>

**KidsTLC, Inc. and its Subsidiary**  
**Consolidating Schedule of Financial Position**  
**December 31, 2013**

	KidsTLC, Inc.	TLC Charities Foundation	Eliminations	Consolidated
<b>Current Assets</b>				
Cash and cash equivalents	\$ 1,199,541	\$ 41,823	\$ -	\$ 1,241,364
Accounts receivable, net of allowance of \$8,000	892,452	-	-	892,452
Contributions receivable	679,932	-	-	679,932
Other receivables	21	-	-	21
Due to/from affiliate	(1,476,804)	1,476,804	-	-
Prepaid expenses	121,821	-	-	121,821
Inventories	33,429	-	-	33,429
Total current assets	<u>1,450,392</u>	<u>1,518,627</u>	<u>-</u>	<u>2,969,019</u>
<b>Investments</b>	<u>2,874,230</u>	<u>1,132,288</u>	<u>-</u>	<u>4,006,518</u>
<b>Property and Equipment, at Cost</b>				
Land	852,045	-	-	852,045
Building and improvements	17,068,681	-	-	17,068,681
Furniture and equipment	1,728,562	-	-	1,728,562
Automotive equipment	227,950	-	-	227,950
	<u>19,877,238</u>	<u>-</u>	<u>-</u>	<u>19,877,238</u>
Less accumulated depreciation	2,958,115	-	-	2,958,115
Property and equipment, net	<u>16,919,123</u>	<u>-</u>	<u>-</u>	<u>16,919,123</u>
<b>Contributions Receivable</b>	<u>750,461</u>	<u>-</u>	<u>-</u>	<u>750,461</u>
<b>Other Assets</b>				
Deposits	8,965	-	-	8,965
Goodwill	50,000	-	-	50,000
	<u>58,965</u>	<u>-</u>	<u>-</u>	<u>58,965</u>
<b>Investment in Subsidiary</b>	<u>2,650,915</u>	<u>-</u>	<u>(2,650,915)</u>	<u>-</u>
Total assets	<u>\$ 24,704,086</u>	<u>\$ 2,650,915</u>	<u>\$ (2,650,915)</u>	<u>\$ 24,704,086</u>
<b>Current Liabilities</b>				
Accounts payable	\$ 298,111	\$ -	\$ -	\$ 298,111
Accrued expenses	651,440	-	-	651,440
Lines of credit	300,000	-	-	300,000
Current maturities of long-term debt	283,023	-	-	283,023
Total current liabilities	<u>1,532,574</u>	<u>-</u>	<u>-</u>	<u>1,532,574</u>
<b>Long-Term Liabilities</b>				
Long-term debt	3,974,935	-	-	3,974,935
Total liabilities	<u>5,507,509</u>	<u>-</u>	<u>-</u>	<u>5,507,509</u>
<b>Net Assets</b>				
Unrestricted	5,888,333	1,859,772	(1,859,772)	5,888,333
Temporarily restricted	12,731,090	213,989	(213,989)	12,731,090
Permanently restricted	577,154	577,154	(577,154)	577,154
Total net assets	<u>19,196,577</u>	<u>2,650,915</u>	<u>(2,650,915)</u>	<u>19,196,577</u>
Total liabilities and net assets	<u>\$ 24,704,086</u>	<u>\$ 2,650,915</u>	<u>\$ (2,650,915)</u>	<u>\$ 24,704,086</u>

**KidsTLC, Inc. and its Subsidiary**  
**Consolidating Schedule of Activities**  
**Year Ended December 31, 2014**

	<b>KidsTLC, Inc.</b>	<b>TLC Charities Foundation</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Revenues, Gains and Other Support</b>				
Program revenue	\$ 10,315,654	\$ -	\$ -	\$ 10,315,654
Contributions	1,208,023	11,933	-	1,219,956
Grants	288,576	-	-	288,576
Fund raising	621,647	-	-	621,647
Investment income	86,107	160,313	-	246,420
Gain on investment in subsidiary	14,161	-	(14,161)	-
Other revenues	217,722	-	-	217,722
	<u>12,751,890</u>	<u>172,246</u>	<u>(14,161)</u>	<u>12,909,975</u>
<b>Expenses</b>				
Program services	10,701,543	-	-	10,701,543
Management and general	1,311,554	-	-	1,311,554
Fund raising	762,336	158,085	-	920,421
	<u>12,775,433</u>	<u>158,085</u>	<u>-</u>	<u>12,933,518</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ (23,543)</u>	<u>\$ 14,161</u>	<u>\$ (14,161)</u>	<u>\$ (23,543)</u>

**KidsTLC, Inc. and its Subsidiary**  
**Consolidating Schedule of Activities**  
**Year Ended December 31, 2013**

	<b>KidsTLC, Inc.</b>	<b>TLC Charities Foundation</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Revenues, Gains and Other Support</b>				
Net patient service revenue	\$ 7,345,763	\$ -	\$ -	\$ 7,345,763
Contributions	1,583,334	5,975	-	1,589,309
Grants	364,772	-	-	364,772
Fund raising	637,795	-	(25,000)	612,795
Investment income	75,054	192,517	-	267,571
Gain on investment in subsidiary	50,597	-	(50,597)	-
Other revenues	201,285	7	-	201,292
	<u>10,258,600</u>	<u>198,499</u>	<u>(75,597)</u>	<u>10,381,502</u>
<b>Expenses</b>				
Program services	9,315,340	-	-	9,315,340
Management and general	1,062,155	-	-	1,062,155
Fund raising	958,178	147,902	(25,000)	1,081,080
	<u>11,335,673</u>	<u>147,902</u>	<u>(25,000)</u>	<u>11,458,575</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ (1,077,073)</u>	<u>\$ 50,597</u>	<u>\$ (50,597)</u>	<u>\$ (1,077,073)</u>