

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

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2015 and 2014



**KidsTLC, Inc. and its Subsidiary**  
**December 31, 2015 and 2014**

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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 statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the years 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, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information listed in the table of contents, is presented for purposes of additional analysis and is 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 audits 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 27, 2016

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Statement of Financial Position**  
**December 31, 2015**

**Assets**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 303,759	\$ 2,217,081	\$ 52,209	\$ 2,573,049
Accounts receivable, net of allowance of \$129,000	1,103,382	-	-	1,103,382
Contributions receivable	-	480,166	-	480,166
Other receivables	13,276	-	-	13,276
Prepaid expenses	115,399	-	-	115,399
Inventories	39,858	5,956	-	45,814
	<u>1,575,674</u>	<u>2,703,203</u>	<u>52,209</u>	<u>4,331,086</u>
Total current assets				
<b>Investments</b>	<u>3,013,818</u>	<u>289,132</u>	<u>524,945</u>	<u>3,827,895</u>
<b>Property and Equipment, At Cost</b>				
Land	660,921	191,125	-	852,046
Building and improvements	4,456,720	12,859,499	-	17,316,219
Furniture and equipment	997,284	946,154	-	1,943,438
Automotive equipment	175,646	11,193	-	186,839
	<u>6,290,571</u>	<u>14,007,971</u>	<u>-</u>	<u>20,298,542</u>
Less accumulated depreciation	<u>1,801,403</u>	<u>2,523,724</u>	<u>-</u>	<u>4,325,127</u>
	<u>4,489,168</u>	<u>11,484,247</u>	<u>-</u>	<u>15,973,415</u>
Property and equipment, net				
<b>Contributions Receivable</b>	<u>-</u>	<u>86,855</u>	<u>-</u>	<u>86,855</u>
<b>Other Assets</b>	<u>84,408</u>	<u>-</u>	<u>12,223</u>	<u>96,631</u>
Total assets	<u>\$ 9,163,068</u>	<u>\$ 14,563,437</u>	<u>\$ 589,377</u>	<u>\$ 24,315,882</u>

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Statement of Financial Position**  
**December 31, 2015**

**Liabilities and Net Assets**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 35,750	\$ 226,301	\$ -	\$ 262,051
Line of credit	635,000	-	-	635,000
Accounts payable	310,738	-	-	310,738
Accrued expenses	641,597	-	-	641,597
	<u>1,623,085</u>	<u>226,301</u>	<u>-</u>	<u>1,849,386</u>
Total current liabilities				
<b>Long-term Liabilities</b>				
Long-term debt	1,955,344	1,507,887	-	3,463,231
	<u>3,578,429</u>	<u>1,734,188</u>	<u>-</u>	<u>5,312,617</u>
Total liabilities				
<b>Net Assets</b>				
Unrestricted	5,584,639	-	-	5,584,639
Temporarily restricted	-	12,829,249	-	12,829,249
Permanently restricted	-	-	589,377	589,377
	<u>5,584,639</u>	<u>12,829,249</u>	<u>589,377</u>	<u>19,003,265</u>
Total net assets				
Total liabilities and net assets	<u>\$ 9,163,068</u>	<u>\$ 14,563,437</u>	<u>\$ 589,377</u>	<u>\$ 24,315,882</u>

**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>	<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**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<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 Activities and Changes in Net Assets**  
**Year Ended December 31, 2015**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>				
Program revenue	\$ 11,962,996	\$ -	\$ -	\$ 11,962,996
Contributions	288,295	1,519,442	-	1,807,737
Grants	266,438	-	-	266,438
Fund raising	805,530	-	-	805,530
Investment loss	(10,356)	(734)	-	(11,090)
Other revenues	215,189	-	12,223	227,412
Net assets released from restrictions	1,071,531	(1,071,531)	-	-
	<u>14,599,623</u>	<u>447,177</u>	<u>12,223</u>	<u>15,059,023</u>
Total revenues, gains and other support				
<b>Expenses</b>				
Program services	12,960,909	-	-	12,960,909
Management and general	1,250,897	-	-	1,250,897
Fund raising	1,016,986	-	-	1,016,986
	<u>15,228,792</u>	<u>-</u>	<u>-</u>	<u>15,228,792</u>
Total expenses				
<b>Increase (Decrease) in Net Assets</b>	(629,169)	447,177	12,223	(169,769)
<b>Net Assets, Beginning of Year</b>	<u>6,213,808</u>	<u>12,382,072</u>	<u>577,154</u>	<u>19,173,034</u>
<b>Net Assets, End of Year</b>	<u>\$ 5,584,639</u>	<u>\$ 12,829,249</u>	<u>\$ 589,377</u>	<u>\$ 19,003,265</u>

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

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues, Gains and 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				
	<u>13,258,993</u>	<u>(349,018)</u>	<u>-</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	920,421	-	-	920,421
	<u>12,933,518</u>	<u>-</u>	<u>-</u>	<u>12,933,518</u>
Total expenses				
	<u>12,933,518</u>	<u>-</u>	<u>-</u>	<u>12,933,518</u>
<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>\$ 6,213,808</u>	<u>\$ 12,382,072</u>	<u>\$ 577,154</u>	<u>\$ 19,173,034</u>

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Operating Activities</b>		
Change in net assets	\$ (169,769)	\$ (23,543)
Items not requiring (providing) operating cash flows		
Depreciation and amortization	782,260	775,185
Unrealized (gains) losses on investments	285,926	(10,597)
Realized gains on sale of investments	(49,892)	(18,438)
Contributions of property and equipment	-	(3,600)
(Gain) loss on disposal of property and equipment	4,268	(19,822)
Restricted contributions received	(220,069)	(68,712)
Changes in		
Accounts receivable	34,025	(244,955)
Other accounts receivable	(6,754)	(6,501)
Other assets	(39,645)	3,210
Inventories	(5,441)	(6,944)
Accounts payable	(228,719)	241,346
Accrued liabilities	114,768	(124,611)
Other liabilities	(6,145)	6,145
	494,813	498,163
<b>Investing Activities</b>		
Purchase of investments	(1,505,904)	(329,557)
Proceeds from disposition of investments	1,440,675	366,410
Purchase of property and equipment	(440,044)	(189,148)
Proceeds from disposition of property and equipment	-	41,800
	(505,273)	(110,495)
<b>Financing Activities</b>		
Restricted contributions received	532,410	619,743
Net borrowing (repayment) on lines of credit	635,000	(300,000)
Principal payments on long-term debt	(255,332)	(277,344)
	912,078	42,399
<b>Net Change in Cash and Cash Equivalents</b>	901,618	430,067
<b>Cash and Cash Equivalents, Beginning of Year</b>	1,671,431	1,241,364
<b>Cash and Cash Equivalents, End of Year</b>	\$ 2,573,049	\$ 1,671,431
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 96,420	\$ 107,450

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Schedule of Functional Expenses**  
**Year Ended December 31, 2015**

	<b>PRTF</b>	<b>Behavioral Health</b>	<b>Autism</b>	<b>Street Outreach Program</b>	<b>Intensive Outpatient</b>	<b>Sanctuary</b>	<b>Chaplaincy</b>	<b>Total Program Expense</b>
Salaries	\$5,676,025	\$ 822,015	\$ 987,344	\$ 80,865	\$ 155,990	\$ 341,603	\$ 54,959	\$ 8,118,801
Payroll taxes	540,110	69,190	89,039	7,212	11,678	26,950	3,983	748,162
Employee benefits	837,471	114,006	135,575	12,239	27,601	37,350	13,041	1,177,283
Temporary staffing	3,283	20,213	1,512	9	-	270	7	25,294
Staff development	20,134	10,510	3,105	1,225	732	347	619	36,672
Insurance	145,464	11,489	22,519	3,466	2,576	10,432	1,047	196,993
Utilities and janitorial	121,021	15,418	24,612	829	315	9,382	1,073	172,650
Depreciation	413,687	110,298	109,700	2,688	7,328	22,689	3,157	669,547
Repairs and maintenance	85,880	5,741	11,219	300	1,663	9,438	391	114,632
Rent expense	-	1,618	-	-	33,698	-	-	35,316
Communications	30,172	3,771	5,149	1,587	2,278	2,766	716	46,439
Professional services	521,076	137,915	23,350	1,636	4,433	11,343	613	700,366
Consultant	17,073	75,080	10,426	-	72	26	-	102,677
Contract services	22,012	2,345	3,889	139	37	1,564	183	30,169
Equipment repairs	37,852	2,910	2,632	43	1,792	1,346	409	46,984
Small equipment	15,925	1,425	3,660	296	8,083	2,339	39	31,767
Travel/vehicle expenses	24,884	2,612	2,004	2,847	4,565	2,974	1,184	41,070
Printing	426	395	74	156	266	35	23	1,375
Supplies	42,029	9,060	10,316	264	7,000	3,628	1,118	73,415
Postage	1,768	1,977	201	7	8	46	101	4,108
Dues	4,979	229	651	66	134	325	52	6,436
Subscriptions	871	246	281	1	-	4	-	1,403
Advertising	3,062	325	3,195	-	-	479	-	7,061
Licenses	4,842	1,727	767	30	58	168	68	7,660
Food	243,930	-	-	297	8,366	13,458	-	266,051
Other client expenses	62,067	341	-	6,338	3,314	4,120	618	76,798
Household supplies	15,895	1,393	2,421	108	487	1,457	115	21,876
Medical	10,387	356	60	-	-	167	-	10,970
Flex-plan	-	-	-	1,140	-	-	-	1,140
Fund raising events	-	-	-	-	-	-	-	-
Bad debt expense	15,426	23,970	135,788	-	-	320	-	175,504
Donor and volunteer recognition	139	-	-	-	300	-	-	439
Investment fees	1,837	1,071	1,333	-	-	-	-	4,241
Interest expense	752	156	455	2	-	-	1	1,366
Amortization expense	-	-	5,000	-	-	-	-	5,000
Miscellaneous	808	123	45	-	17	251	-	1,244
<b>Total expenditures</b>	<b>\$8,921,287</b>	<b>\$ 1,447,925</b>	<b>\$ 1,596,322</b>	<b>\$ 123,790</b>	<b>\$ 282,791</b>	<b>\$ 505,277</b>	<b>\$ 83,517</b>	<b>\$ 12,960,909</b>

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Schedule of Functional Expenses (Continued)**  
**Year Ended December 31, 2015**

	<u>Fundraising</u>			2015 Total
	Management & General	Fundraising Services	Charities	
Salaries	\$ 613,247	\$ 471,927	\$ 94,452	\$ 9,298,427
Payroll taxes	43,050	41,139	7,758	840,109
Employee benefits	87,599	43,679	5,392	1,313,953
Temporary staffing	1,085	24	-	26,403
Staff development	5,768	1,839	55	44,334
Insurance	30,256	8,990	332	236,571
Utilities and janitorial	32,806	4,545	53	210,054
Depreciation	87,141	19,980	401	777,069
Repairs and maintenance	15,492	1,814	18	131,956
Rent expense	846	-	-	36,162
Communications	20,344	2,709	1,021	70,513
Professional services	114,551	22,004	5,683	842,604
Consultant	15,979	8,001	-	126,657
Contract services	8,613	853	8	39,643
Equipment repairs	4,212	2,236	9	53,441
Small equipment	4,681	392	26	36,866
Travel/vehicle expenses	17,858	3,806	1,248	63,982
Printing	877	4,430	439	7,121
Supplies	11,245	2,014	48	86,722
Postage	1,042	2,668	3	7,821
Dues	2,493	1,749	127	10,805
Subscriptions	556	170	-	2,129
Advertising	1,386	17,345	14	25,806
Licenses	803	115	12	8,590
Food	3,376	352	-	269,779
Other client expenses	-	-	-	76,798
Household supplies	3,042	538	-	25,456
Medical	-	-	-	10,970
Flex-plan	-	-	-	1,140
Fund raising events	-	196,240	11	196,251
Bad debt expense	-	-	-	175,504
Donor and volunteer recognition	443	2,187	-	3,069
Investment fees	26,053	10,370	21,037	61,701
Interest expense	94,637	417	-	96,420
Amortization expense	-	191	-	5,191
Miscellaneous	1,416	68	6,047	8,775
<b>Total expenditures</b>	<b>\$ 1,250,897</b>	<b>\$ 872,792</b>	<b>\$ 144,194</b>	<b>\$ 15,228,792</b>

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

	PRTF	Behavioral Health	Autism	Street Outreach Program	Sanctuary	Chaplaincy	Total Program Expense
Salaries	\$ 5,078,595	\$ 732,771	\$ 741,840	\$ 89,967	\$ 19,630	\$ 62,329	\$ 6,725,132
Payroll taxes	451,157	59,148	63,824	8,243	1,795	3,934	588,101
Employee benefits	697,486	76,439	86,232	11,148	1,441	14,247	886,993
Temporary staffing	5,725	13,072	581	51	-	34	19,463
Staff development	27,331	5,593	3,317	412	32	527	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	51	913	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	553	3,287	44,425
Printing	880	532	419	60	-	27	1,918
Supplies	25,199	4,264	21,403	400	37	1,686	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>\$ 23,539</b>	<b>\$ 95,362</b>	<b>\$ 10,701,543</b>

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

	<u>Fundraising</u>				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
<b>Total expenditures</b>	<b>\$ 1,311,554</b>	<b>\$ 751,353</b>	<b>\$ 158,085</b>	<b>\$ 10,983</b>	<b>\$ 12,933,518</b>

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**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 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***

The consolidated financial statements include the accounts of KidsTLC and the Foundation. All significant intercompany transactions and accounts have been eliminated. KidsTLC has a controlling interest in the Foundation through board membership.

***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.

Phoenix Connections Intensive Outpatient Program

KidsTLC provides a structured group therapy program designed for children, ages 6 through 18, who exhibit psychiatric symptoms and significant impairment in day-to-day educational, social and interpersonal functioning. This unique program offers a much-needed intermediate level of care, serving as a bridge between inpatient hospitalization or PRTF and a traditional office outpatient setting. The program incorporates a variety of curricular goals, including practicing healthy communication, helping develop coping skills, distress tolerance, DBT techniques and therapeutic games. Phoenix Connections exists to offer the critical support youth and families need in order for youth to remain in, or successfully transition back into the community. KidsTLC began offering Intensive Outpatient Program services in 2015.



**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

Phoenix Sanctuary

The Phoenix Sanctuary Program, aimed at preventing state custody and higher levels of care for children, offers emergency crisis stabilization for children and adolescents, ages 6-18, experiencing emotional, behavioral and social adaptation problems, and family or placement problems. The Phoenix Sanctuary has 24-hour client care, intake support and psychiatric consultation, as needed. Phoenix Sanctuary is a secure residential facility designed to enhance the youth's ability to achieve a higher level of functioning while avoiding future placement in a more intensive treatment facility. Referral sources often include JIAC, DCF, JCMH and various other placement agencies including KVC and St. Francis. KidsTLC began offering Sanctuary services in 2015.

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.

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.

CARES Parent Program

CARES (Caregiving Attitudes Reinforced by Education and Support) offers parents and caregivers of youth admitted to the KidsTLC's Phoenix Services free education, and provides networking and support systems through shared peer partnerships. With support from experienced parent liaisons and KidsTLC professionals, families are given opportunities to seek guidance, discuss personal experiences, share parenting approaches, and benefit from materials presented each week. Expenses for the CARES program are included with PRTF in the schedules of functional expenses.

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

ADACEA

The ADACEA program provides psychoeducation, training and support to families whose children are receiving services within KidsTLC's programs, as well as families in the community at large. ADACEA, (a version of CARES-Caregiving Attitudes Reinforced by Education and Support) is for Hispanic families and delivered in Spanish. This stands for Actitudes que Dan Amor Con Educación y Apoyo, meaning Attitudes that give Love with Education and Support. KidsTLC realizes that the struggles of Hispanic/Latino families are a major concern in the Olathe community. As a result of immigrating to the U.S., many Latinos have endured a range of life stressors and experiences (*e.g.*, poor housing, abuse, trauma, stigma and discrimination) that when left unaddressed and unresolved can lead to mental health problems. The ADACEA group also provides insight into cultural barriers and struggles that Hispanic parents may be facing with raising their children in a different culture, and provides alternatives for overcoming them while creating a safe home for children. Caregivers may also wish to privately discuss emotional and behavioral issues related to their children and families within a safe, culturally competent and confidential forum. Expenses for the ADACEA program are included with PRTF in the schedules of functional expenses.

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 consolidated 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, 2015 and 2014, cash equivalents consisted primarily of money market accounts.

At December 31, 2015, the Organization's cash accounts exceeded federally insured limits by approximately \$1,856,000.

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

***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 for all program services except Autism Services. For Autism Services, the Organization reports patient accounts receivable for gross services and provides an allowance based on contractually due amounts from third-party payers. 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.

***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.

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

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, 2015 and 2014.

***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, 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.

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

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, 2015 and 2014, \$162,448 and \$154,861, respectively, was received in in-kind contributions.

The Organization receives in-kind professional services from members of the Board of Directors. The value of these services was approximately \$13,700 and \$21,000, respectively, for years ended December 31, 2015 and 2014.

***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.

***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.

***Deferred Revenue***

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

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

***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 2014 consolidated financial statements to conform to the 2015 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.

**Note 2: Contributions Receivable**

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

	<u>2015</u>	<u>2014</u>
Due in less than one year	\$ 505,438	\$ 602,591
Due in one to five years	97,632	357,048
	<u>603,070</u>	<u>959,639</u>
Less		
Unamortized discounts	5,895	32,295
Estimated allowance for uncollectible pledges	<u>30,154</u>	<u>47,982</u>
	<u>\$ 567,021</u>	<u>\$ 879,362</u>

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Note 3: Investments and Investment Return**

A summary of the composition of KidsTLC's investment portfolio at December 31, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Mutual funds invested in equity securities		
Eaton Vance	\$ 217,632	\$ 126,419
Hartford Growth	221,209	152,578
ishares Russell 1000	467,052	362,905
MFS Value	224,458	172,917
Other mutual funds invested in equity securities	819,668	393,485
Mutual funds invested in debt securities		
JP Morgan Core Bond FD	215,567	264,410
Metropolitan West Total	274,421	486,500
MFS Research Bond Fund	273,189	481,196
PIMCO Total Return Fund	533,186	939,732
Other mutual funds invested in debt securities	393,325	480,481
Common stocks	50,732	-
Greater Kansas City Community Foundation	137,456	138,077
	<u>          </u>	<u>          </u>
Total investments	<u>\$ 3,827,895</u>	<u>\$ 3,998,700</u>

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

The following schedule summarizes investment return and its classification in the consolidated statements of activities for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 224,944	\$ 217,385
Realized gains on sale of investments	49,892	18,438
Unrealized gains (losses) on securities	(285,926)	10,597
	<u>          </u>	<u>          </u>
Total investment income (loss)	<u>\$ (11,090)</u>	<u>\$ 246,420</u>

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**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 was \$137,456 and \$138,077 at December 31, 2015 and 2014, 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**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

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, 2015 and 2014:

	2015	Fair Value	Fair Value Measurements 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					
Eaton Vance		\$ 217,632	\$ 217,632	\$ -	\$ -
Hartford Growth		221,209	221,209	-	-
ishares Russell 1000		467,052	467,052	-	-
MFS Value		224,458	224,458	-	-
Other mutual funds invested in equity securities		819,668	819,668	-	-
Mutual funds invested in debt securities					
JP Morgan Core Bond FD		215,567	215,567	-	-
Metropolitan West Total		274,421	274,421	-	-
MFS Research Bond Fund		273,189	273,189	-	-
PIMCO Total Return Fund		533,186	533,186	-	-
Other mutual funds invested in debt securities		393,325	393,325	-	-
Common stocks		50,732	50,732	-	-
Greater Kansas City Community Foundation		137,456	-	137,456	-
Total		<u>\$ 3,827,895</u>	<u>\$ 3,690,439</u>	<u>\$ 137,456</u>	<u>\$ -</u>

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

	2014	Fair Value	Fair Value Measurements 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						
Eaton Vance	\$	126,419	\$	126,419	\$	-
Hartford Growth		152,578		152,578		-
ishares Russell 1000		362,905		362,905		-
MFS Value		172,917		172,917		-
Other mutual funds invested in equity securities		393,485		393,485		-
Mutual funds invested in debt securities						
JP Morgan Core Bond FD		264,410		264,410		-
Metropolitan West Total		486,500		486,500		-
MFS Research Bond Fund		481,196		481,196		-
PIMCO Total Return Fund		939,732		939,732		-
Other mutual funds invested in debt securities		480,481		480,481		-
Greater Kansas City Community Foundation		138,077		-		138,077
<b>Total</b>	<b>\$</b>	<b>3,998,700</b>	<b>\$</b>	<b>3,860,623</b>	<b>\$</b>	<b>138,077</b>

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, 2015. 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,

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
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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.

***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 2015 and 2014.

**Note 6: Line of Credit**

At December 31, 2015, the Organization had access to a line of credit with an investment company with a maximum available limit of \$1,394,119 and \$2,164,702 at December 31, 2015 and 2014, 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, 2015 and 2014, there was \$635,000 and \$0, respectively, outstanding against the line.

**Note 7: Long-term Debt**

	<b>2015</b>	<b>2014</b>
Bond payable (A)	\$ 3,707,786	\$ 3,954,420
Capital lease obligations (B)	17,496	26,194
	3,725,282	3,980,614
Less current maturities	262,051	255,332
	\$ 3,463,231	\$ 3,725,282

- (A) 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 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.

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
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- (B) 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, 2015 are:

	<b>Long-Term Debt (Exc. Leases)</b>	<b>Capital Lease Obligations</b>
2016	\$ 252,480	\$ 10,840
2017	258,465	8,274
2018	264,592	-
2019	270,863	-
2020	277,284	-
Thereafter	<u>2,384,102</u>	<u>-</u>
	<u>\$ 3,707,786</u>	19,114
Less amount representing interest		<u>1,618</u>
Present value of future minimum lease payments		<u>\$ 17,496</u>

Equipment includes the following property under capital leases:

	<b>2015</b>	<b>2014</b>
Equipment	\$ 40,301	\$ 40,301
Less accumulated depreciation	<u>23,306</u>	<u>15,246</u>
	<u>\$ 16,995</u>	<u>\$ 25,055</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, 2015, 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>2015</u>	<u>2014</u>
Endowment reserve	\$ 136,654	\$ 300,005
Operating reserve	773,731	783,927
Program reserve	700,163	709,992
Capital campaign	2,002,026	2,063,755
Operating reserve - established in 2008 Bringing Our Children Home – Continuing Our Journey Capital Campaign	365,179	365,178
	<u>168,622</u>	<u>168,622</u>
	<u>\$ 4,146,375</u>	<u>\$ 4,391,479</u>

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

***Temporarily Restricted Net Assets***

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

	<u>2015</u>	<u>2014</u>
Capital campaign	\$ 5,425,528	\$ 5,594,488
Bringing Our Children Home – Continuing Our Journey		
Capital Campaign	5,834,826	6,158,072
2015 Capital improvements campaign	1,096,177	-
Designated contributions	126,639	375,528
Designated fund raising revenue	100,000	-
Beneficial interest in community foundation	111,959	112,580
Chaplaincy endowment	134,120	141,404
	<u>\$ 12,829,249</u>	<u>\$ 12,382,072</u>

***Permanently Restricted Net Assets***

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

	<u>2015</u>	<u>2014</u>
Chaplaincy endowment	\$ 546,919	\$ 546,919
Beneficial interest in community foundation	25,497	25,497
Other endowment funds	16,961	4,738
	<u>\$ 589,377</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.

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

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 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, 2015 and 2014 was:

	<b>2015</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Donor-restricted endowment funds	\$ -	\$ 149,499	\$ 589,377	\$ 738,876
Board-designated endowment funds	136,654	-	-	136,654
Total Endowment Funds	<u>\$ 136,654</u>	<u>\$ 149,499</u>	<u>\$ 589,377</u>	<u>\$ 875,530</u>
	<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	<u>\$ 300,005</u>	<u>\$ 156,742</u>	<u>\$ 577,154</u>	<u>\$ 1,033,901</u>

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

Changes in endowment net assets for the years ended December 31, 2015 and 2014 were:

	<b>2015</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment net assets, beginning of year	\$ 300,005	\$ 156,742	\$ 577,154	\$ 1,033,901
Additions	-	-	12,223	12,223
Investment return				
Investment income	7,296	34,502	-	41,798
Net depreciation	(7,647)	(41,745)	-	(49,392)
Total investment return	(351)	(7,243)	-	(7,594)
Appropriation of endowment assets for expenditure	(163,000)	-	-	(163,000)
Endowment net assets, end of year	<u>\$ 136,654</u>	<u>\$ 149,499</u>	<u>\$ 589,377</u>	<u>\$ 875,530</u>
	<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>



**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at December 31, 2015 and 2014 consisted of:

	<b>2015</b>	<b>2014</b>
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	\$ 589,377	\$ 577,154
Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under SPMIFA with purpose restrictions	\$ 149,499	\$ 156,742

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.

**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 \$222,222 and \$154,259 for 2015 and 2014, respectively.

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**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. As of December 31, 2015 and 2014, the Organization was unaware of any outstanding litigation or claims that could result in a contingent loss.

## **Supplementary Information**

**KidsTLC, Inc. and its Subsidiary**  
**Consolidating Schedule of Financial Position**  
**December 31, 2015**

	KidsTLC, Inc.	TLC Charities Foundation	Eliminations	Consolidated
<b>Current Assets</b>				
Cash and cash equivalents	\$ 2,502,479	\$ 70,570	\$ -	\$ 2,573,049
Accounts receivable, net of allowances of \$129,000	1,103,382	-	-	1,103,382
Contributions receivable	480,166	-	-	480,166
Other receivables	13,276	-	-	13,276
Due to/from affiliate	(1,561,261)	1,561,261	-	-
Prepaid expenses	115,399	-	-	115,399
Inventories	45,814	-	-	45,814
Total current assets	<u>2,699,255</u>	<u>1,631,831</u>	<u>-</u>	<u>4,331,086</u>
<b>Investments</b>	<u>2,927,897</u>	<u>899,998</u>	<u>-</u>	<u>3,827,895</u>
<b>Property and Equipment, At Cost</b>				
Land	852,046	-	-	852,046
Building and improvements	17,316,219	-	-	17,316,219
Furniture and equipment	1,943,438	-	-	1,943,438
Automotive equipment	186,839	-	-	186,839
	<u>20,298,542</u>	<u>-</u>	<u>-</u>	<u>20,298,542</u>
Less accumulated depreciation	4,325,127	-	-	4,325,127
Property and equipment, net	<u>15,973,415</u>	<u>-</u>	<u>-</u>	<u>15,973,415</u>
<b>Contributions Receivable</b>	<u>86,855</u>	<u>-</u>	<u>-</u>	<u>86,855</u>
<b>Other Assets</b>	<u>84,408</u>	<u>12,223</u>	<u>-</u>	<u>96,631</u>
<b>Investment in Subsidiary</b>	<u>2,538,152</u>	<u>-</u>	<u>(2,538,152)</u>	<u>-</u>
Total assets	<u>\$ 24,309,982</u>	<u>\$ 2,544,052</u>	<u>\$ (2,538,152)</u>	<u>\$ 24,315,882</u>
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 262,051	\$ -	\$ -	\$ 262,051
Line of credit	635,000	-	-	635,000
Accounts payable	304,838	5,900	-	310,738
Accrued expenses	641,597	-	-	641,597
Total current liabilities	<u>1,843,486</u>	<u>5,900</u>	<u>-</u>	<u>1,849,386</u>
<b>Long-term Liabilities</b>				
Long-term debt	3,463,231	-	-	3,463,231
Total liabilities	<u>5,306,717</u>	<u>5,900</u>	<u>-</u>	<u>5,312,617</u>
<b>Net Assets</b>				
Unrestricted	5,584,639	1,702,697	(1,702,697)	5,584,639
Temporarily restricted	12,829,249	246,078	(246,078)	12,829,249
Permanently restricted	589,377	589,377	(589,377)	589,377
Total net assets	<u>19,003,265</u>	<u>2,538,152</u>	<u>(2,538,152)</u>	<u>19,003,265</u>
Total liabilities and net assets	<u>\$ 24,309,982</u>	<u>\$ 2,544,052</u>	<u>\$ (2,538,152)</u>	<u>\$ 24,315,882</u>

**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
Inventories	40,373	-	-	40,373
	<u>1,936,310</u>	<u>1,606,276</u>	<u>-</u>	<u>3,542,586</u>
<b>Total current assets</b>				
<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
	<u>16,314,708</u>	<u>-</u>	<u>-</u>	<u>16,314,708</u>
<b>Property and equipment, net</b>				
<b>Contributions Receivable</b>	<u>306,901</u>	<u>-</u>	<u>-</u>	<u>306,901</u>
<b>Other Assets</b>	<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>
<b>Total assets</b>	<u>\$ 24,220,179</u>	<u>\$ 2,670,975</u>	<u>\$ (2,665,075)</u>	<u>\$ 24,226,079</u>
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 255,332	\$ -	\$ -	\$ 255,332
Accounts payable	533,557	5,900	-	539,457
Accrued expenses	526,829	-	-	526,829
Unearned grant revenue	6,145	-	-	6,145
	<u>1,321,863</u>	<u>5,900</u>	<u>-</u>	<u>1,327,763</u>
<b>Total current liabilities</b>				
<b>Long-term Liabilities</b>				
Long-term debt	<u>3,725,282</u>	<u>-</u>	<u>-</u>	<u>3,725,282</u>
<b>Total liabilities</b>	<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
	<u>19,173,034</u>	<u>2,665,075</u>	<u>(2,665,075)</u>	<u>19,173,034</u>
<b>Total net assets</b>				
<b>Total liabilities and net assets</b>	<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 Activities**  
**Year Ended December 31, 2015**

	<b>KidsTLC, Inc.</b>	<b>TLC Charities Foundation</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Revenues, Gains and Other Support</b>				
Program revenue	\$ 11,962,996	\$ -	\$ -	\$ 11,962,996
Contributions	1,799,328	8,409	-	1,807,737
Grants	266,438	-	-	266,438
Fund raising	805,530	-	-	805,530
Investment loss	(7,732)	(3,358)	-	(11,090)
Loss on investment in subsidiary	(126,923)	-	126,923	-
Other revenues	215,192	12,220	-	227,412
	<u>14,914,829</u>	<u>17,271</u>	<u>126,923</u>	<u>15,059,023</u>
<b>Expenses</b>				
Program services	12,960,909	-	-	12,960,909
Management and general	1,250,897	-	-	1,250,897
Fund raising	872,792	144,194	-	1,016,986
	<u>15,084,598</u>	<u>144,194</u>	<u>-</u>	<u>15,228,792</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ (169,769)</u>	<u>\$ (126,923)</u>	<u>\$ 126,923</u>	<u>\$ (169,769)</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>