

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

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2016 and 2015



**KidsTLC, Inc. and its Subsidiary**  
**December 31, 2016 and 2015**

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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, 2016 and 2015, 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.

Board of Directors  
KidsTLC, Inc. and its Subsidiary  
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*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, 2016 and 2015, 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.

*BKD, LLP*

Kansas City, Missouri  
October 6, 2017

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Statement of Financial Position**  
**December 31, 2016**

**Assets**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 141,397	\$ 2,291,441	\$ 4,738	\$ 2,437,576
Accounts receivable, net of allowance of \$48,000	1,040,197	-	-	1,040,197
Contributions receivable	-	192,528	-	192,528
Other receivables	2,926	-	-	2,926
Prepaid expenses	103,164	-	-	103,164
Inventories	59,208	5,956	-	65,164
	<u>1,346,892</u>	<u>2,489,925</u>	<u>4,738</u>	<u>3,841,555</u>
Total current assets	<u>1,346,892</u>	<u>2,489,925</u>	<u>4,738</u>	<u>3,841,555</u>
<b>Investments</b>	<u>3,183,033</u>	<u>252,360</u>	<u>572,416</u>	<u>4,007,809</u>
<b>Property and Equipment, At Cost</b>				
Land	615,921	186,125	-	802,046
Building and improvements	4,081,972	13,106,858	-	17,188,830
Furniture and equipment	906,560	949,860	-	1,856,420
Automotive equipment	176,834	10,005	-	186,839
Construction in process	50,506	-	-	50,506
	<u>5,831,793</u>	<u>14,252,848</u>	<u>-</u>	<u>20,084,641</u>
Less accumulated depreciation	<u>1,801,783</u>	<u>3,079,880</u>	<u>-</u>	<u>4,881,663</u>
Property and equipment, net	<u>4,030,010</u>	<u>11,172,968</u>	<u>-</u>	<u>15,202,978</u>
<b>Asset Held for Sale</b>	<u>226,885</u>	<u>-</u>	<u>-</u>	<u>226,885</u>
<b>Contributions Receivable</b>	<u>-</u>	<u>42,996</u>	<u>-</u>	<u>42,996</u>
<b>Other Assets</b>	<u>65,148</u>	<u>-</u>	<u>18,943</u>	<u>84,091</u>
Total assets	<u>\$ 8,851,968</u>	<u>\$ 13,958,249</u>	<u>\$ 596,097</u>	<u>\$ 23,406,314</u>

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Statement of Financial Position**  
**December 31, 2016**

**Liabilities and Net Assets**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 265,872	\$ -	\$ -	\$ 265,872
Line of credit	245,000	-	-	245,000
Accounts payable	341,472	-	-	341,472
Accrued expenses	729,999	-	-	729,999
	<u>1,582,343</u>	<u>-</u>	<u>-</u>	<u>1,582,343</u>
<b>Long-term Liabilities</b>				
Long-term debt	1,715,132	1,481,708	-	3,196,840
	<u>3,297,475</u>	<u>1,481,708</u>	<u>-</u>	<u>4,779,183</u>
<b>Net Assets</b>				
Unrestricted	5,554,493	-	-	5,554,493
Temporarily restricted	-	12,476,541	-	12,476,541
Permanently restricted	-	-	596,097	596,097
	<u>5,554,493</u>	<u>12,476,541</u>	<u>596,097</u>	<u>18,627,131</u>
Total net assets	<u>5,554,493</u>	<u>12,476,541</u>	<u>596,097</u>	<u>18,627,131</u>
Total liabilities and net assets	<u>\$ 8,851,968</u>	<u>\$ 13,958,249</u>	<u>\$ 596,097</u>	<u>\$ 23,406,314</u>

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

**Assets**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<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				
	<u>1,575,674</u>	<u>2,703,203</u>	<u>52,209</u>	<u>4,331,086</u>
<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	1,801,403	2,523,724	-	4,325,127
	<u>4,489,168</u>	<u>11,484,247</u>	<u>-</u>	<u>15,973,415</u>
Property and equipment, net				
	<u>4,489,168</u>	<u>11,484,247</u>	<u>-</u>	<u>15,973,415</u>
<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>
<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>
<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	<u>5,584,639</u>	<u>12,829,249</u>	<u>589,377</u>	<u>19,003,265</u>
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 Activities and Changes in Net Assets**  
**Year Ended December 31, 2016**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>				
Program revenue	\$ 12,951,352	\$ -	\$ -	\$ 12,951,352
Contributions	370,045	545,451	-	915,496
Grants	260,261	-	-	260,261
Fund raising	724,518	-	-	724,518
Investment income	198,091	41,578	-	239,669
Other revenues	221,955	-	6,720	228,675
Net assets released from restrictions	939,737	(939,737)	-	-
	<u>15,665,959</u>	<u>(352,708)</u>	<u>6,720</u>	<u>15,319,971</u>
Total revenues, gains and other support				
<b>Expenses</b>				
Program services	13,467,562	-	-	13,467,562
Management and general	1,156,435	-	-	1,156,435
Fund raising	1,072,108	-	-	1,072,108
	<u>15,696,105</u>	<u>-</u>	<u>-</u>	<u>15,696,105</u>
Total expenses				
<b>Increase (Decrease) in Net Assets</b>	(30,146)	(352,708)	6,720	(376,134)
<b>Net Assets, Beginning of Year</b>	<u>5,584,639</u>	<u>12,829,249</u>	<u>589,377</u>	<u>19,003,265</u>
<b>Net Assets, End of Year</b>	<u>\$ 5,554,493</u>	<u>\$ 12,476,541</u>	<u>\$ 596,097</u>	<u>\$ 18,627,131</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><u>\$ 5,584,639</u></u>	<u><u>\$ 12,829,249</u></u>	<u><u>\$ 589,377</u></u>	<u><u>\$ 19,003,265</u></u>

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Operating Activities</b>		
Change in net assets	\$ (376,134)	\$ (169,769)
Items not requiring (providing) operating cash flows		
Depreciation and amortization	837,155	782,260
Unrealized (gains) losses on investments	(100,402)	285,926
Realized (gains) losses on sale of investments	6,619	(49,892)
Loss on disposal of property and equipment	48,878	4,268
Restricted contributions received	(200,000)	(220,069)
Changes in		
Accounts receivable	63,185	34,025
Other accounts receivable	10,350	(6,754)
Other assets	14,563	(39,645)
Inventories	(19,350)	(5,441)
Accounts payable	30,734	(228,719)
Accrued liabilities	88,402	114,768
Other liabilities	-	(6,145)
	<u>404,000</u>	<u>494,813</u>
<b>Investing Activities</b>		
Purchase of investments	(699,038)	(1,505,904)
Proceeds from disposition of investments	612,907	1,440,675
Purchase of property and equipment	(332,269)	(440,044)
	<u>(418,400)</u>	<u>(505,273)</u>
<b>Financing Activities</b>		
Restricted contributions received	531,497	532,410
Net borrowing (repayment) on lines of credit	(390,000)	635,000
Principal payments on long-term debt	(262,570)	(255,332)
	<u>(121,073)</u>	<u>912,078</u>
<b>Net Change in Cash and Cash Equivalents</b>	(135,473)	901,618
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>2,573,049</u>	<u>1,671,431</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 2,437,576</u>	<u>\$ 2,573,049</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 95,722	\$ 96,420

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Schedule of Functional Expenses**  
**Year Ended December 31, 2016**

	<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	\$ 5,804,069	\$ 814,606	\$ 954,742	\$ 99,756	\$ 231,463	\$ 608,617	\$ 13,030	\$ 8,526,283
Payroll taxes	442,289	59,922	71,534	7,163	17,273	47,042	982	646,205
Employee benefits	823,123	108,271	142,473	12,908	50,605	77,280	3,111	1,217,771
Temporary help	6,982	1,286	930	223	75	938	37	10,471
Staff development	18,131	6,698	3,864	824	435	1,405	724	32,081
Insurance	152,739	11,526	23,089	3,047	4,268	16,115	881	211,665
Utilities and janitorial	103,307	16,117	23,452	461	245	8,782	620	152,984
Depreciation	472,956	105,760	105,577	2,605	13,628	42,392	2,610	745,528
Repairs and maintenance	80,710	6,040	9,624	249	623	5,117	324	102,687
Rent expense	4,328	3,065	-	643	63,828	-	-	71,864
Communications	18,892	3,727	3,322	1,694	4,096	3,431	693	35,855
Professional services	615,201	198,445	30,502	1,201	7,516	22,708	408	875,981
Legal services	8,170	-	-	-	-	-	-	8,170
Accounting services	19,749	1,105	3,454	276	829	3,488	138	29,039
Consultant	72,099	59,444	4,796	68	1,429	416	-	138,252
Contract services	30,610	3,166	5,284	150	116	2,599	201	42,126
Equipment repairs	42,896	4,511	5,012	80	2,721	2,059	62	57,341
Equipment leases	122	-	-	-	-	-	-	122
Small equipment	21,691	582	3,039	125	8,773	972	386	35,568
Travel/Vehicle expenses	31,526	919	3,709	1,074	5,265	1,775	1,826	46,094
Printing	240	198	459	-	-	-	-	897
Supplies	47,013	2,152	12,978	147	1,867	3,339	827	68,323
Postage	1,510	1,975	64	3	10	73	2	3,637
Dues	5,129	233	1,121	58	175	735	254	7,705
Subscriptions	-	-	30	-	-	-	46	76
Advertising	4,145	7,123	1,331	111	90	144	16	12,960
Licenses	4,150	615	453	25	152	410	72	5,877
Food	248,909	-	-	60	14,020	27,793	-	290,782
Other client expenses	53,224	5,738	215	2,955	1,616	4,036	11	67,795
Household supplies	25,371	1,703	2,922	82	54	1,595	111	31,838
Medical	16,631	128	-	-	-	64	-	16,823
Flex-plan	-	-	-	(114)	-	-	-	(114)
Fund raising events	-	-	-	38	-	-	-	38
Bad debt expense	(37,342)	14,094	(16,813)	-	(391)	2,798	-	(37,654)
Donor and volunteer recognition	56	-	-	-	-	-	-	56
Investment fees	380	3,025	2,979	-	-	-	-	6,384
Interest expense	454	89	198	1	19	29	-	790
Amortization expense	-	-	5,000	-	-	-	-	5,000
Miscellaneous	203	-	63	26	3	(52)	19	262
<b>Total expenditures</b>	<b>\$ 9,139,663</b>	<b>\$ 1,442,263</b>	<b>\$ 1,405,403</b>	<b>\$ 135,939</b>	<b>\$ 430,803</b>	<b>\$ 886,100</b>	<b>\$ 27,391</b>	<b>\$ 13,467,562</b>

**KidsTLC, Inc. and its Subsidiary**  
**Consolidated Schedule of Functional Expenses (Continued)**  
**Year Ended December 31, 2016**

	<u>Fundraising</u>			<b>2016 Total</b>
	<b>Management &amp; General</b>	<b>Fundraising Services</b>	<b>Charities</b>	
Salaries	\$ 581,979	\$ 490,342	\$ 57,492	\$ 9,656,096
Payroll taxes	41,375	37,092	4,837	729,509
Employee benefits	84,877	47,532	1,934	1,352,114
Temporary help	1,470	263	-	12,204
Staff development	7,557	4,824	19	44,481
Insurance	30,714	7,328	334	250,041
Utilities and janitorial	16,746	3,058	47	172,835
Depreciation	62,367	18,740	308	826,943
Repairs and maintenance	7,566	1,947	-	112,200
Rent expense	8,680	4,595	-	85,139
Communications	13,859	2,510	524	52,748
Professional services	63,907	28,082	5,458	973,428
Legal services	36,822	-	-	44,992
Accounting services	5,457	975	138	35,609
Consultant	24,670	32,515	-	195,437
Contract services	6,430	963	18	49,537
Equipment repairs	5,559	3,084	1	65,985
Equipment leases	-	-	-	122
Small equipment	4,198	3,635	35	43,436
Travel/vehicle expenses	13,351	5,504	472	65,421
Printing	-	4,126	-	5,023
Supplies	7,364	2,682	59	78,428
Postage	1,363	1,675	2	6,677
Dues	3,201	1,822	329	13,057
Subscriptions	223	125	-	424
Advertising	825	26,350	13	40,148
Licenses	898	89	13	6,877
Food	5,606	-	-	296,388
Other client expenses	155	-	-	67,950
Household supplies	1,999	536	-	34,373
Medical	69	-	-	16,892
Flex-plan	-	-	-	(114)
Fund raising events	-	236,937	-	236,975
Bad debt expense	-	1,350	-	(36,304)
Donor and volunteer recognition	115	7,142	-	7,313
Investment fees	20,172	11,008	7,620	45,184
Interest expense	94,673	259	-	95,722
Amortization expense	-	5,212	-	10,212
Miscellaneous	2,188	41	112	2,603
<b>Total expenditures</b>	<b>\$ 1,156,435</b>	<b>\$ 992,343</b>	<b>\$ 79,765</b>	<b>\$ 15,696,105</b>

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

	PRTF	Behavioral Health	Autism	Street Outreach Program	Intensive Outpatient	Sanctuary	Chaplaincy	Total Program Expense
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>			<u>2015 Total</u>
	<u>Management &amp; General</u>	<u>Fundraising Services</u>	<u>Charities</u>	
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
Total expenditures	<u>\$ 1,250,897</u>	<u>\$ 872,792</u>	<u>\$ 144,194</u>	<u>\$ 15,228,792</u>

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

**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 (the Organization.) 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, 2016 and 2015**

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, 2016 and 2015**

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, 2016 and 2015, cash equivalents consisted primarily of money market accounts.

At December 31, 2016, the Organization's cash accounts exceeded federally insured limits by approximately \$1,886,000.

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

***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, 2016 and 2015**

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, 2016 and 2015.

***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 and Fundraising***

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, 2016 and 2015**

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.

The Organization hosts four recurring fundraisers each year that comprise nearly all of the fundraising revenue. One of the four fundraising events is the United for Kids Gala. The Gala raised approximately \$315,000 and \$200,000 in 2016 and 2015, respectively. This represents 43% and 25% of fundraising revenues and 19% and 8% of combined contribution and fundraising revenues in 2016 and 2015, respectively.

***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, 2016 and 2015, \$104,120 and \$162,448, 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 \$22,500 and \$13,700, respectively, for years ended December 31, 2016 and 2015.

***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.

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

***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.

***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%:

	<b>2016</b>	<b>2015</b>
Due in less than one year	\$ 196,878	\$ 505,438
Due in one to five years	50,000	97,632
	<u>246,878</u>	<u>603,070</u>
Less		
Unamortized discounts	4,504	5,895
Estimated allowance for uncollectible pledges	6,850	30,154
	<u>\$ 235,524</u>	<u>\$ 567,021</u>

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

**Note 3: Investments and Investment Return**

A summary of the composition of KidsTLC's investment portfolio at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Mutual funds invested in equity securities		
Eaton Vance	\$ 272,291	\$ 217,632
Hartford Growth	253,369	221,209
ishares Russell 1000	554,671	467,052
MFS Value	270,568	224,458
Dreyfus Appreciation Fund	206,163	-
Other mutual funds invested in equity securities	756,771	819,668
Mutual funds invested in debt securities		
JP Morgan Core Bond FD	-	215,567
Metropolitan West Total	291,997	274,421
MFS Research Bond Fund	292,664	273,189
PIMCO Total Return Fund	588,721	533,186
Other mutual funds invested in debt securities	379,012	393,325
Common stocks	-	50,732
Greater Kansas City Community Foundation	141,582	137,456
	<u>\$ 4,007,809</u>	<u>\$ 3,827,895</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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 145,886	\$ 224,944
Realized gains (losses) on sale of investments	(6,619)	49,892
Unrealized gains (losses) on securities	100,402	(285,926)
	<u>\$ 239,669</u>	<u>\$ (11,090)</u>

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

**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 investments was \$141,582 and \$137,456 at December 31, 2016 and 2015, respectively. The assets are invested primarily in pooled bond and equity funds.

**Note 5: Asset Held for Sale**

In December of 2016, KidsTLC formally listed a building for sale. The building was originally planned to be renovated for future sanctuary services. Due to the cost to renovate, management chose to sell the asset. The net book value of the asset was \$226,885 as of December 2016. Management did not record depreciation against the asset once it was identified as held for sale. Based on an appraisal of the property, management determined the fair value exceeded the carrying value of the asset held for sale and no asset impairment was required. On April 18, 2017, subsequent to year-end, KidsTLC received a formal offer to purchase the building for \$260,000 from an unrelated party. On the closing date, the Company received a check from the purchaser for \$235,000 and the remaining \$25,000 was collected from the escrow agent on the same date. Possession of the building was transferred at closing.

**Note 6: 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, 2016 and 2015**

The following tables present 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, 2016 and 2015:

	2016	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		\$ 272,291	\$ 272,291	\$ -	\$ -
Hartford Growth		253,369	253,369	-	-
ishares Russell 1000		554,671	554,671	-	-
MFS Value		270,568	270,568	-	-
Dreyfus Appreciation Fund		206,163	206,163	-	-
Other mutual funds invested in equity securities		756,771	756,771	-	-
Mutual funds invested in debt securities					
Metropolitan West Total		291,997	291,997	-	-
MFS Research Bond Fund		292,664	292,664	-	-
PIMCO Total Return Fund		588,721	588,721	-	-
Other mutual funds invested in debt securities		379,012	379,012	-	-
Greater Kansas City Community Foundation		141,582	-	141,582	-
Total		\$ 4,007,809	\$ 3,866,227	\$ 141,582	\$ -

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

	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, 2016 and 2015**

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, 2016. 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.

***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 2016 and 2015.

**Note 7: Line of Credit**

At December 31, 2016, the Organization had access to a line of credit with an investment company with a maximum available limit of \$1,649,104 and \$1,394,119 at December 31, 2016 and 2015, 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, 2016 and 2015, there was \$245,000 and \$635,000, respectively, outstanding against the line.

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

**Note 8: Long-term Debt**

	<b>2016</b>	<b>2015</b>
Bond payable (A)	\$ 3,455,306	\$ 3,707,786
Capital lease obligations (B)	7,406	17,496
	3,462,712	3,725,282
Less current maturities	265,872	262,051
	\$ 3,196,840	\$ 3,463,231

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

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2016 are:

	<b>Long-Term Debt (Exc. Leases)</b>	<b>Capital Lease Obligations</b>
2017	\$ 258,465	\$ 8,273
2018	264,592	-
2019	270,863	-
2020	277,284	-
2021	283,856	-
Thereafter	2,100,246	-
	<u>\$ 3,455,306</u>	<u>8,273</u>
Less amount representing interest		<u>867</u>
Present value of future minimum lease payments		<u>\$ 7,406</u>

Equipment includes the following property under capital leases:

	<b>2016</b>	<b>2015</b>
Equipment	\$ 40,301	\$ 40,301
Less accumulated depreciation	<u>31,365</u>	<u>23,306</u>
	<u>\$ 8,936</u>	<u>\$ 16,995</u>

**Note 9: 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.

**KidsTLC, Inc. and its Subsidiary**  
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**December 31, 2016 and 2015**

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, 2016, 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>2016</u>	<u>2015</u>
Endowment reserve	\$ 115,266	\$ 136,654
Operating reserve	817,744	773,731
Program reserve	740,562	700,163
Capital campaign	1,941,722	2,002,026
Operating reserve - established in 2008	365,179	365,179
Bringing Our Children Home – Continuing Our Journey Capital Campaign	<u>168,622</u>	<u>168,622</u>
	<u>\$ 4,149,095</u>	<u>\$ 4,146,375</u>

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

**Temporarily Restricted Net Assets**

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

	<u>2016</u>	<u>2015</u>
Capital campaign	\$ 5,269,170	\$ 5,425,528
Bringing Our Children Home – Continuing Our Journey		
Capital Campaign	5,460,922	5,834,826
2015 Capital improvements campaign	1,334,321	1,096,177
Designated contributions	124,869	126,639
Designated fund raising revenue	-	100,000
Beneficial interest in community foundation	116,084	111,959
Chaplaincy endowment	<u>171,175</u>	<u>134,120</u>
	<u>\$ 12,476,541</u>	<u>\$ 12,829,249</u>

**Permanently Restricted Net Assets**

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

	<u>2016</u>	<u>2015</u>
Chaplaincy endowment	\$ 546,919	\$ 546,919
Beneficial interest in community foundation	25,497	25,497
Other endowment funds	<u>23,681</u>	<u>16,961</u>
	<u>\$ 596,097</u>	<u>\$ 589,377</u>

**Note 10: 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

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

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, 2016 and 2015 was:

	<b>2016</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 191,129	\$ 596,097	\$ 787,226
Board-designated endowment funds	115,266	-	-	115,266
Total Endowment Funds	<u>\$ 115,266</u>	<u>\$ 191,129</u>	<u>\$ 596,097</u>	<u>\$ 902,492</u>
	<b>2015</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</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>



**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

Changes in endowment net assets for the years ended December 31, 2016 and 2015 were:

	<b>2016</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment net assets, beginning of year	\$ 136,654	\$ 149,499	\$ 589,377	\$ 875,530
Additions	-	-	6,720	6,720
Investment return				
Investment income	3,876	22,940	-	26,816
Net appreciation	4,736	18,690	-	23,426
Total investment return	8,612	41,630	-	50,242
Appropriation of endowment assets for expenditure	(30,000)	-	-	(30,000)
Endowment net assets, end of year	<u>\$ 115,266</u>	<u>\$ 191,129</u>	<u>\$ 596,097</u>	<u>\$ 902,492</u>
	<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>

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at December 31, 2016 and 2015 consisted of:

	<b>2016</b>	<b>2015</b>
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	\$ 596,097	\$ 589,377
Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under SPMIFA with purpose restrictions	\$ 191,129	\$ 149,499

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 11: 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 \$231,736 and \$222,222 for 2016 and 2015, respectively.

**KidsTLC, Inc. and its Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

**Note 12: 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, 2016 and 2015, 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, 2016**

	KidsTLC, Inc.	TLC Charities Foundation	Eliminations	Consolidated
<b>Current Assets</b>				
Cash and cash equivalents	\$ 2,371,025	\$ 66,551	\$ -	\$ 2,437,576
Accounts receivable, net of allowances of \$48,000	1,040,197	-	-	1,040,197
Contributions receivable	192,528	-	-	192,528
Other receivables	2,926	-	-	2,926
Due to/from affiliate	(1,598,793)	1,598,793	-	-
Prepaid expenses	103,164	-	-	103,164
Inventories	65,164	-	-	65,164
	<u>2,176,211</u>	<u>1,665,344</u>	<u>-</u>	<u>3,841,555</u>
<b>Total current assets</b>				
<b>Investments</b>	<u>3,080,672</u>	<u>927,137</u>	<u>-</u>	<u>4,007,809</u>
<b>Property and Equipment, At Cost</b>				
Land	802,046	-	-	802,046
Building and improvements	17,188,830	-	-	17,188,830
Furniture and equipment	1,856,420	-	-	1,856,420
Automotive equipment	186,839	-	-	186,839
Construction in process	50,506	-	-	50,506
	<u>20,084,641</u>	<u>-</u>	<u>-</u>	<u>20,084,641</u>
Less accumulated depreciation	4,881,663	-	-	4,881,663
	<u>15,202,978</u>	<u>-</u>	<u>-</u>	<u>15,202,978</u>
<b>Property and equipment, net</b>				
<b>Asset Held for Sale, net</b>	<u>226,885</u>	<u>-</u>	<u>-</u>	<u>226,885</u>
<b>Contributions Receivable</b>	<u>42,996</u>	<u>-</u>	<u>-</u>	<u>42,996</u>
<b>Other Assets</b>	<u>65,148</u>	<u>18,943</u>	<u>-</u>	<u>84,091</u>
<b>Investment in Subsidiary</b>	<u>2,611,424</u>	<u>-</u>	<u>(2,611,424)</u>	<u>-</u>
<b>Total assets</b>	<u>\$ 23,406,314</u>	<u>\$ 2,611,424</u>	<u>\$ (2,611,424)</u>	<u>\$ 23,406,314</u>
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 265,872	\$ -	\$ -	\$ 265,872
Line of credit	245,000	-	-	245,000
Accounts payable	341,472	-	-	341,472
Accrued expenses	729,999	-	-	729,999
	<u>1,582,343</u>	<u>-</u>	<u>-</u>	<u>1,582,343</u>
<b>Total current liabilities</b>				
<b>Long-term Liabilities</b>				
Long-term debt	<u>3,196,840</u>	<u>-</u>	<u>-</u>	<u>3,196,840</u>
<b>Total liabilities</b>	<u>4,779,183</u>	<u>-</u>	<u>-</u>	<u>4,779,183</u>
<b>Net Assets</b>				
Unrestricted	5,554,493	1,728,070	(1,728,070)	5,554,493
Temporarily restricted	12,476,541	287,257	(287,257)	12,476,541
Permanently restricted	596,097	596,097	(596,097)	596,097
	<u>18,627,131</u>	<u>2,611,424</u>	<u>(2,611,424)</u>	<u>18,627,131</u>
<b>Total net assets</b>				
<b>Total liabilities and net assets</b>	<u>\$ 23,406,314</u>	<u>\$ 2,611,424</u>	<u>\$ (2,611,424)</u>	<u>\$ 23,406,314</u>

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

	<b>KidsTLC, Inc.</b>	<b>TLC Charities Foundation</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 2,502,479	\$ 70,570	\$ -	\$ 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
Due to/from affiliate	(1,561,261)	1,561,261	-	-
Prepaid expenses	115,399	-	-	115,399
Inventories	45,814	-	-	45,814
	<u>2,699,255</u>	<u>1,631,831</u>	<u>-</u>	<u>4,331,086</u>
<b>Total current assets</b>				
	<u>2,927,897</u>	<u>899,998</u>	<u>-</u>	<u>3,827,895</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
	<u>15,973,415</u>	<u>-</u>	<u>-</u>	<u>15,973,415</u>
<b>Property and equipment, net</b>				
	<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>
<b>Total assets</b>	<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
	<u>1,843,486</u>	<u>5,900</u>	<u>-</u>	<u>1,849,386</u>
<b>Total current liabilities</b>				
	<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
	<u>3,463,231</u>	<u>-</u>	<u>-</u>	<u>3,463,231</u>
<b>Total liabilities</b>				
	<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
	<u>19,003,265</u>	<u>2,538,152</u>	<u>(2,538,152)</u>	<u>19,003,265</u>
<b>Total net assets</b>				
	<u>19,003,265</u>	<u>2,538,152</u>	<u>(2,538,152)</u>	<u>19,003,265</u>
<b>Total liabilities and net assets</b>				
	<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 Activities**  
**Year Ended December 31, 2016**

	<b>KidsTLC, Inc.</b>	<b>TLC Charities Foundation</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Revenues, Gains and Other Support</b>				
Program revenue	\$ 12,951,352	\$ -	\$ -	\$ 12,951,352
Contributions	915,371	125	-	915,496
Grants	260,261	-	-	260,261
Fund raising	724,518	-	-	724,518
Investment income	93,477	146,192	-	239,669
Gain on investment in subsidiary	73,272	-	(73,272)	-
Other revenues	221,955	6,720	-	228,675
	<u>15,240,206</u>	<u>153,037</u>	<u>(73,272)</u>	<u>15,319,971</u>
<b>Expenses</b>				
Program services	13,467,562	-	-	13,467,562
Management and general	1,156,435	-	-	1,156,435
Fund raising	992,343	79,765	-	1,072,108
	<u>15,616,340</u>	<u>79,765</u>	<u>-</u>	<u>15,696,105</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ (376,134)</u>	<u>\$ 73,272</u>	<u>\$ (73,272)</u>	<u>\$ (376,134)</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>Decrease in Net Assets</b>	<u>\$ (169,769)</u>	<u>\$ (126,923)</u>	<u>\$ 126,923</u>	<u>\$ (169,769)</u>