

KidsTLC, Inc. and its Subsidiary

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2017 and 2016



KidsTLC, Inc. and its Subsidiary
December 31, 2017 and 2016

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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, 2017 and 2016, 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 consolidated financial position of KidsTLC, Inc. and its Subsidiary as of December 31, 2017 and 2016, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position and consolidating schedules of activities listed in the table of contents are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Kansas City, Missouri
April 26, 2018

KidsTLC, Inc. and its Subsidiary
Consolidated Statement of Financial Position
December 31, 2017

Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets				
Cash and cash equivalents	\$ 495,357	\$ 1,964,207	\$ 4,738	\$ 2,464,302
Accounts receivable, net of allowance of \$154,351	1,555,649	-	-	1,555,649
Contributions receivable	-	78,983	-	78,983
Other receivables	17,379	-	-	17,379
Prepaid expenses	87,186	-	-	87,186
Inventories	36,159	5,956	-	42,115
	<u>2,191,730</u>	<u>2,049,146</u>	<u>4,738</u>	<u>4,245,614</u>
Investments	<u>3,482,992</u>	<u>318,991</u>	<u>572,416</u>	<u>4,374,399</u>
Property and Equipment, At Cost				
Land	612,301	189,745	-	802,046
Building and improvements	4,077,265	13,135,431	-	17,212,696
Furniture and equipment	741,417	949,860	-	1,691,277
Automotive equipment	176,597	11,112	-	187,709
Construction in process	513,654	107,883	-	621,537
	<u>6,121,234</u>	<u>14,394,031</u>	<u>-</u>	<u>20,515,265</u>
Less accumulated depreciation	1,838,748	3,646,802	-	5,485,550
	<u>4,282,486</u>	<u>10,747,229</u>	<u>-</u>	<u>15,029,715</u>
Contributions Receivable	<u>-</u>	<u>19,246</u>	<u>-</u>	<u>19,246</u>
Other Assets	<u>53,164</u>	<u>-</u>	<u>28,118</u>	<u>81,282</u>
Total assets	<u>\$ 10,010,372</u>	<u>\$ 13,134,612</u>	<u>\$ 605,272</u>	<u>\$ 23,750,256</u>

KidsTLC, Inc. and its Subsidiary
Consolidated Statement of Financial Position (Continued)
December 31, 2017

Liabilities and Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Liabilities				
Current maturities of long-term debt	\$ 267,701	\$ -	\$ -	\$ 267,701
Line of credit	577,000	-	-	577,000
Accounts payable	478,030	-	-	478,030
Accrued expenses	785,919	-	-	785,919
	<u>2,108,650</u>	<u>-</u>	<u>-</u>	<u>2,108,650</u>
Long-term Liabilities				
Long-term debt	1,709,005	1,223,243	-	2,932,248
	<u>3,817,655</u>	<u>1,223,243</u>	<u>-</u>	<u>5,040,898</u>
Net Assets				
Unrestricted	6,192,717	-	-	6,192,717
Temporarily restricted	-	11,911,369	-	11,911,369
Permanently restricted	-	-	605,272	605,272
	<u>6,192,717</u>	<u>11,911,369</u>	<u>605,272</u>	<u>18,709,358</u>
Total net assets	<u>6,192,717</u>	<u>11,911,369</u>	<u>605,272</u>	<u>18,709,358</u>
Total liabilities and net assets	<u>\$ 10,010,372</u>	<u>\$ 13,134,612</u>	<u>\$ 605,272</u>	<u>\$ 23,750,256</u>

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

Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets				
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>
Investments	<u>3,183,033</u>	<u>252,360</u>	<u>572,416</u>	<u>4,007,809</u>
Property and Equipment, At Cost				
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>
Asset Held for Sale	<u>226,885</u>	<u>-</u>	<u>-</u>	<u>226,885</u>
Contributions Receivable	<u>-</u>	<u>42,996</u>	<u>-</u>	<u>42,996</u>
Other Assets	<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>

See Notes to Consolidated Financial Statements

KidsTLC, Inc. and its Subsidiary
Consolidated Statement of Financial Position (Continued)
December 31, 2016

Liabilities and Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Liabilities				
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>
Total current liabilities				
Long-term Liabilities				
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>
Total liabilities				
Net Assets				
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				
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 Activities and Changes in Net Assets
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Program revenue	\$ 13,645,419	\$ -	\$ -	\$ 13,645,419
Contributions	560,739	410,401	-	971,140
Grants	235,520	-	-	235,520
Fundraising	629,292	-	-	629,292
Investment income	501,074	72,812	-	573,886
Other revenues	315,292	-	9,175	324,467
Net assets released from restrictions	<u>1,048,385</u>	<u>(1,048,385)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>16,935,721</u>	<u>(565,172)</u>	<u>9,175</u>	<u>16,379,724</u>
Expenses				
Program services	14,068,710	-	-	14,068,710
Management and general	1,158,055	-	-	1,158,055
Fundraising and charities	<u>1,070,732</u>	<u>-</u>	<u>-</u>	<u>1,070,732</u>
Total expenses	<u>16,297,497</u>	<u>-</u>	<u>-</u>	<u>16,297,497</u>
Increase (Decrease) in Net Assets	638,224	(565,172)	9,175	82,227
Net Assets, Beginning of Year	<u>5,554,493</u>	<u>12,476,541</u>	<u>596,097</u>	<u>18,627,131</u>
Net Assets, End of Year	<u><u>\$ 6,192,717</u></u>	<u><u>\$ 11,911,369</u></u>	<u><u>\$ 605,272</u></u>	<u><u>\$ 18,709,358</u></u>

KidsTLC, Inc. and its Subsidiary
Consolidated Statement of Activities and Changes in Net Assets
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Program revenue	\$ 12,951,352	\$ -	\$ -	\$ 12,951,352
Contributions	370,045	545,451	-	915,496
Grants	260,261	-	-	260,261
Fundraising	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				
Expenses				
Program services	13,467,562	-	-	13,467,562
Management and general	1,156,435	-	-	1,156,435
Fundraising and charities	1,072,108	-	-	1,072,108
	<u>15,696,105</u>	<u>-</u>	<u>-</u>	<u>15,696,105</u>
Total expenses				
Increase (Decrease) in Net Assets	(30,146)	(352,708)	6,720	(376,134)
Net Assets, Beginning of Year	<u>5,584,639</u>	<u>12,829,249</u>	<u>589,377</u>	<u>19,003,265</u>
Net Assets, End of Year	<u><u>\$ 5,554,493</u></u>	<u><u>\$ 12,476,541</u></u>	<u><u>\$ 596,097</u></u>	<u><u>\$ 18,627,131</u></u>

KidsTLC, Inc. and its Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	\$ 82,227	\$ (376,134)
Items not requiring (providing) operating cash flows		
Depreciation and amortization	831,962	837,155
Provision for uncollectible accounts	129,682	36,304
Unrealized (gains) losses on investments	(334,270)	(100,402)
Realized (gains) losses on sale of investments	(48,757)	6,619
Loss on disposal of property and equipment	(40,952)	48,878
Restricted contributions received	-	(200,000)
Changes in		
Accounts receivable	(645,134)	26,881
Other accounts receivable	(14,453)	10,350
Other assets	8,575	14,563
Inventories	23,049	(19,350)
Accounts payable	136,558	30,734
Accrued liabilities	55,920	88,402
Net cash provided by operating activities	184,407	404,000
Investing Activities		
Purchase of investments	(618,312)	(699,038)
Proceeds from disposition of investments	634,749	612,907
Purchase of property and equipment	(637,280)	(332,269)
Proceeds from disposition of property and equipment	260,000	-
Net cash used in investing activities	(360,843)	(418,400)
Financing Activities		
Restricted contributions received	137,295	531,497
Net borrowing (repayment) on lines of credit	332,000	(390,000)
Principal payments on long-term debt	(266,133)	(262,570)
Net cash provided by (used in) financing activities	203,162	(121,073)
Net Change in Cash and Cash Equivalents	26,726	(135,473)
Cash and Cash Equivalents, Beginning of Year	2,437,576	2,573,049
Cash and Cash Equivalents, End of Year	\$ 2,464,302	\$ 2,437,576
Supplemental Cash Flows Information		
Interest paid	\$ 98,778	\$ 95,722
Financing obligation incurred for purchase of vehicle	3,370	-

KidsTLC, Inc. and its Subsidiary
Consolidated Schedule of Functional Expenses
Year Ended December 31, 2017

	PRTF	Behavioral Health	Autism	Street Outreach Program	Intensive Outpatient	Sanctuary	Chaplaincy	Total Program Expense
Salaries	\$ 5,441,546	\$ 768,454	\$ 1,306,810	\$ 135,504	\$ 200,306	\$ 486,477	\$ 27,187	\$ 8,366,284
Payroll taxes	465,633	63,652	109,362	12,054	17,118	41,491	525	709,835
Employee benefits	684,053	110,118	169,651	16,465	28,754	64,375	4,171	1,077,587
Temporary help	19,779	1,124	2,305	393	513	1,236	19	25,369
Staff development	69,927	5,863	8,836	7,881	1,154	1,488	288	95,437
Endowment program reimbursement	-	-	-	-	-	-	-	-
Insurance	173,919	14,722	24,455	3,697	3,608	12,431	2,584	235,416
Utilities and janitorial	151,639	19,072	24,568	417	235	9,399	3,355	208,685
Depreciation	510,736	106,860	105,156	2,348	14,200	41,119	291	780,710
Repairs and maintenance	64,968	6,067	5,984	210	117	2,691	935	80,972
Rent expense	12,289	4,969	-	6,449	48,250	-	-	71,957
Communications	91,086	9,111	15,987	3,067	3,458	8,472	268	131,449
Professional services	866,987	197,943	83,368	8,136	13,740	40,956	(30)	1,211,100
Legal services	-	4,301	-	-	-	-	-	4,301
Accounting services	29,237	2,457	5,070	773	731	2,724	16	41,008
Consultant	34,093	108,696	17,486	48	37	906	180	161,446
Contract services	41,137	3,156	4,590	92	51	2,075	704	51,805
Equipment repairs	25,451	3,037	2,891	348	1,303	2,449	170	35,649
Small equipment	14,325	1,157	842	1,019	209	1,058	532	19,142
Travel/Vehicle expenses	30,025	676	3,035	1,244	1,157	1,564	1,115	38,816
Printing	(207)	161	-	-	-	-	-	(46)
Supplies	39,276	4,532	6,103	229	1,385	3,002	2,163	56,690
Postage	1,755	1,877	151	8	8	35	-	3,834
Dues	5,921	427	1,597	134	127	474	232	8,912
Subscriptions	82	9	63	-	-	6	113	273
Advertising	3,436	269	602	85	80	299	2	4,773
Licenses	8,842	1,555	2,130	242	134	514	62	13,479
Food	236,584	-	-	1,078	10,226	26,542	-	274,430
Other client expenses	93,876	4,572	2,214	2,693	1,594	9,057	25	114,031
Household supplies	24,021	1,822	2,695	57	32	1,304	459	30,390
Medical	19,368	309	-	-	-	189	-	19,866
Flex-plan	190	-	-	57,602	-	-	-	57,792
Fundraising events	-	-	-	-	-	-	-	-
Bad debt expense	49,000	(1,080)	76,379	-	6,184	(801)	-	129,682
Donor and volunteer recognition	-	-	-	-	-	-	-	-
Investment fees	-	2,677	2,311	-	-	-	-	4,988
Interest expense	89	6	13	-	1	4	-	113
Amortization expense	-	-	5,000	-	-	-	-	5,000
Miscellaneous	(2,529)	2	4	1	24	2	31	(2,465)
Total expenditures	\$ 9,206,534	\$ 1,448,573	\$ 1,989,658	\$ 262,274	\$ 354,736	\$ 761,538	\$ 45,397	\$ 14,068,710

KidsTLC, Inc. and its Subsidiary
Consolidated Schedule of Functional Expenses (Continued)
Year Ended December 31, 2017

	<u>Fundraising</u>			2017 Total
	Management & General	Fundraising Services	Charities	
Salaries	\$ 578,789	\$ 395,736	\$ 1,043	\$ 9,341,852
Payroll taxes	40,054	33,359	101	783,349
Employee benefits	78,208	44,408	-	1,200,203
Temporary help	2,825	543	-	28,737
Staff development	1,586	5,360	-	102,383
Endowment program reimbursement	-	-	136,805	136,805
Insurance	12,071	3,328	-	250,815
Utilities and janitorial	8,081	1,129	-	217,895
Depreciation	28,408	12,466	166	821,750
Repairs and maintenance	3,820	401	-	85,193
Rent expense	9,525	18,378	-	99,860
Communications	9,481	4,501	-	145,431
Professional services	55,636	31,652	750	1,299,138
Legal services	89,650	-	-	93,951
Accounting services	891	1,227	2,080	45,206
Consultant	79,788	38,778	-	280,012
Contract services	1,787	286	-	53,878
Equipment repairs	1,935	1,530	-	39,114
Small equipment	533	-	-	19,675
Travel/vehicle expenses	7,157	752	-	46,725
Printing	823	14,120	-	14,897
Supplies	4,155	478	-	61,323
Postage	1,173	1,241	-	6,248
Dues	1,941	969	-	11,822
Subscriptions	76	1	-	350
Advertising	15,096	25,408	-	45,277
Licenses	162	225	-	13,866
Food	986	1,311	-	276,727
Other client expenses	76	50	-	114,157
Household supplies	477	155	-	31,022
Medical	-	-	-	19,866
Flex-plan	-	-	-	57,792
Fundraising events	-	245,306	-	245,306
Bad debt expense	-	-	-	129,682
Donor and volunteer recognition	60	4,656	-	4,716
Investment fees	18,984	11,268	19,548	54,788
Interest expense	98,611	54	-	98,778
Amortization expense	-	5,212	-	10,212
Miscellaneous	5,210	91	5,860	8,696
	<u>\$ 1,158,055</u>	<u>\$ 904,379</u>	<u>\$ 166,353</u>	<u>\$ 16,297,497</u>
Total expenditures	<u>\$ 1,158,055</u>	<u>\$ 904,379</u>	<u>\$ 166,353</u>	<u>\$ 16,297,497</u>

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

	PRTF	Behavioral Health	Autism	Street Outreach Program	Intensive Outpatient	Sanctuary	Chaplaincy	Total Program Expense
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 staffing	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)
Fundraising 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
Total expenditures	\$ 9,139,663	\$ 1,442,263	\$ 1,405,403	\$ 135,939	\$ 430,803	\$ 886,100	\$ 27,391	\$ 13,467,562

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

	<u>Fundraising</u>			
	Management & General	Fundraising Services	Charities	2016 Total
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 staffing	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)
Fundraising 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
	<u>\$ 1,156,435</u>	<u>\$ 992,343</u>	<u>\$ 79,765</u>	<u>\$ 15,696,105</u>
Total expenditures	<u>\$ 1,156,435</u>	<u>\$ 992,343</u>	<u>\$ 79,765</u>	<u>\$ 15,696,105</u>

KidsTLC, Inc. and its Subsidiary
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016, cash equivalents consisted primarily of money market accounts.

At December 31, 2017, the Organization's cash accounts exceeded federally insured limits by approximately \$1,998,000.

KidsTLC, Inc. and its Subsidiary
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

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, 2017 and 2016

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

At December 31, 2017 and 2016, there was approximately \$108,000 and \$0, respectively, included in construction in progress for a facility renovation project. Total budgeted cost of the renovation is approximately \$686,000 as approved by the Board of Directors.

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, 2017 and 2016.

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 to 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, 2017 and 2016

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 \$369,000 and \$315,000 in 2017 and 2016, respectively. This represents 59 percent and 43 percent of fundraising revenues and 23 percent and 19 percent of combined contribution and fundraising revenues in 2017 and 2016, 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, 2017 and 2016, \$128,410 and \$104,120, 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 \$30,250 and \$22,500, respectively, for the years ended December 31, 2017 and 2016.

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, 2017 and 2016

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 fundraising 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 April 26, 2018, 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 percent:

	2017	2016
Due in less than one year	\$ 83,140	\$ 196,878
Due in one to five years	25,000	50,000
	<u>108,140</u>	<u>246,878</u>
Less		
Unamortized discounts	4,504	4,504
Estimated allowance for uncollectible pledges	5,407	6,850
	<u>\$ 98,229</u>	<u>\$ 235,524</u>

KidsTLC, Inc. and its Subsidiary
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Note 3: Investments and Investment Return

A summary of the composition of KidsTLC's investment portfolio at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Mutual funds invested in equity securities		
Eaton Vance Large Cap Value	\$ 283,800	\$ 272,291
Hartford Growth	287,601	253,369
iShares Russell 1000 Value	291,453	287,805
iShares Russell 1000 Growth	305,454	266,866
MFS Value Fund	286,550	270,568
Dreyfus Appreciation Fund	273,260	206,163
Other mutual funds invested in equity securities	812,514	756,771
Mutual funds invested in debt securities		
Metropolitan West Total	325,546	291,997
MFS Research Bond Fund	322,984	292,664
PIMCO Total Return Fund	650,409	588,721
Other mutual funds invested in debt securities	386,142	379,012
Greater Kansas City Community Foundation	148,686	141,582
	<u>\$ 4,374,399</u>	<u>\$ 4,007,809</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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 190,859	\$ 145,886
Realized gains (losses) on sale of investments	48,757	(6,619)
Unrealized gains on securities	334,270	100,402
	<u>\$ 573,886</u>	<u>\$ 239,669</u>

KidsTLC, Inc. and its Subsidiary
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

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 \$148,686 and \$141,582 at December 31, 2017 and 2016, 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 the date it was listed for sale. 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, 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, 2017 and 2016

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, 2017 and 2016:

	2017	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 Large Cap Value	\$	283,800	\$ 283,800	\$ -	\$ -
Hartford Growth		287,601	287,601	-	-
iShares Russell 1000 Value		291,453	291,453	-	-
iShares Russell 1000 Growth		305,454	305,454	-	-
MFS Value Fund		286,550	286,550	-	-
Dreyfus Appreciation Fund		273,260	273,260	-	-
Other mutual funds invested in equity securities		812,514	812,514	-	-
Mutual funds invested in debt securities			-		
Metropolitan West Total		325,546	325,546	-	-
MFS Research Bond Fund		322,984	322,984	-	-
PIMCO Total Return Fund		650,409	650,409	-	-
Other mutual funds invested in debt securities		386,142	386,142	-	-
Greater Kansas City Community Foundation		148,686	-	148,686	-
Total	\$	4,374,399	\$ 4,225,713	\$ 148,686	\$ -

KidsTLC, Inc. and its Subsidiary
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

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 Large Cap Value	\$ 272,291	\$ 272,291	\$ -	\$ -
Hartford Growth	253,369	253,369	-	-
iShares Russell 1000 Value	287,805	287,805	-	-
iShares Russell 1000 Growth	266,866	266,866	-	-
MFS Value Fund	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, 2017 and 2016

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, 2017. 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 2017 and 2016.

Note 7: Line of Credit

At December 31, 2017, the Organization had access to a line of credit with an investment company with a maximum available limit of \$1,517,694 and \$1,649,104 at December 31, 2017 and 2016, 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, 2017 and 2016, there was \$577,000 and \$245,000, respectively, outstanding against the line.

KidsTLC, Inc. and its Subsidiary
Notes to Consolidated Financial Statements
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Note 8: Long-term Debt

	<u>2017</u>	<u>2016</u>
Bond payable (A)	\$ 3,196,841	\$ 3,455,306
Vehicle financing obligation (B)	3,108	-
Capital lease obligations (C)	-	7,406
	<u>3,199,949</u>	<u>3,462,712</u>
Less current maturities	<u>267,701</u>	<u>265,872</u>
	<u>\$ 2,932,248</u>	<u>\$ 3,196,840</u>

(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 percent. The interest rate was fixed until August 31, 2017, and then KidsTLC had the option to renew the interest rate based on an interest rate period of three, four or five years. At the renewal date, the interest rate was renewed at 3.17 percent for five years increasing the lease payments to \$29,343 monthly. The bonds are collateralized by KidsTLC's main campus property.

(B) The above vehicle financing obligation will be paid during 2018.

(C) The above capital leases include administrative equipment which expired during 2017.

Aggregate annual maturities of long-term debt at December 31, 2017 are:

	Long-Term Debt (Exc. Leases)
2018	\$ 267,701
2019	270,863
2020	277,284
2021	283,856
2022	290,585
Thereafter	<u>1,809,660</u>
	<u>\$ 3,199,949</u>

KidsTLC, Inc. and its Subsidiary
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Equipment includes the following property under capital leases:

	2017	2016
Equipment	\$ -	\$ 40,301
Less accumulated depreciation	-	31,365
	\$ -	\$ 8,936

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.

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, 2017, 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.

KidsTLC, Inc. and its Subsidiary
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

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

	2017	2016
Endowment reserve	\$ 57,836	\$ 115,266
Operating reserve	925,142	817,744
Program reserve	838,060	740,562
Capital campaign	1,881,419	1,941,722
Operating reserve - established in 2008	365,179	365,179
Bringing Our Children Home – Continuing Our Journey Capital Campaign	168,622	168,622
	<u>\$ 4,236,258</u>	<u>\$ 4,149,095</u>

Temporarily Restricted Net Assets

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

	2017	2016
Capital campaign	\$ 5,121,880	\$ 5,269,170
Bringing Our Children Home – Continuing Our Journey Capital Campaign	5,056,431	5,460,922
2015 Capital improvements campaign	1,366,364	1,334,321
Designated contributions	7,058	124,869
Designated fundraising revenue	-	-
Beneficial interest in community foundation	123,190	116,084
Chaplaincy endowment	236,446	171,175
	<u>\$ 11,911,369</u>	<u>\$ 12,476,541</u>

Permanently Restricted Net Assets

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

	2017	2016
Chaplaincy endowment	\$ 546,919	\$ 546,919
Beneficial interest in community foundation	25,497	25,497
Other endowment funds	32,856	23,681
	<u>\$ 605,272</u>	<u>\$ 596,097</u>

KidsTLC, Inc. and its Subsidiary
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

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 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

KidsTLC, Inc. and its Subsidiary
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The composition of net assets by type of endowment fund at December 31, 2017 and 2016 was:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 236,446	\$ 605,272	\$ 841,718
Board-designated endowment funds	57,836	-	-	57,836
Total Endowment Funds	<u>\$ 57,836</u>	<u>\$ 236,446</u>	<u>\$ 605,272</u>	<u>\$ 899,554</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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>

KidsTLC, Inc. and its Subsidiary
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Changes in endowment net assets for the years ended December 31, 2017 and 2016 were:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 115,266	\$ 191,129	\$ 596,097	\$ 902,492
Additions	-	-	9,175	9,175
Investment return				
Investment income	3,447	26,627	-	30,074
Net appreciation	4,736	18,690	-	23,426
Total investment return	8,183	45,317	-	53,500
Appropriation of endowment assets for expenditure	(65,613)	-	-	(65,613)
Endowment net assets, end of year	<u>\$ 57,836</u>	<u>\$ 236,446</u>	<u>\$ 605,272</u>	<u>\$ 899,554</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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>

KidsTLC, Inc. and its Subsidiary
Notes to Consolidated Financial Statements
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Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at December 31, 2017 and 2016 consisted of:

	2017	2016
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	\$ 605,272	\$ 596,097
Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under SPMIFA with purpose restrictions	\$ 236,446	\$ 191,129

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 percent of its endowment fund’s average fair value over the prior five 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 percent of their wages, subject to statutory limitations. The Organization matches 100 percent of employee contributions up to 3 percent of employee wages and 50 percent of contributions over 3 percent up to 5 percent of employee wages. The employer contribution expense totaled \$207,930 and \$231,736 for 2017 and 2016, respectively.

KidsTLC, Inc. and its Subsidiary
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Note 12: Future Change in Accounting Principle – Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. The Organization is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Note 13: 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, 2017 and 2016, 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, 2017

	KidsTLC, Inc.	TLC Charities Foundation	Eliminations	Consolidated
Current Assets				
Cash and cash equivalents	\$ 2,415,240	\$ 49,062	\$ -	\$ 2,464,302
Accounts receivable, net of allowances of \$48,000	1,555,649	-	-	1,555,649
Contributions receivable	78,983	-	-	78,983
Other receivables	17,379	-	-	17,379
Due to/from affiliate	(1,794,568)	1,794,568	-	-
Prepaid expenses	87,186	-	-	87,186
Inventories	42,115	-	-	42,115
Total current assets	<u>2,401,984</u>	<u>1,843,630</u>	<u>-</u>	<u>4,245,614</u>
Investments	<u>3,428,638</u>	<u>945,761</u>	<u>-</u>	<u>4,374,399</u>
Property and Equipment, At Cost				
Land	802,046	-	-	802,046
Building and improvements	17,212,696	-	-	17,212,696
Furniture and equipment	1,691,277	-	-	1,691,277
Automotive equipment	187,709	-	-	187,709
Construction in process	621,537	-	-	621,537
	<u>20,515,265</u>	<u>-</u>	<u>-</u>	<u>20,515,265</u>
Less accumulated depreciation	5,485,550	-	-	5,485,550
Property and equipment, net	<u>15,029,715</u>	<u>-</u>	<u>-</u>	<u>15,029,715</u>
Contributions Receivable	<u>19,246</u>	<u>-</u>	<u>-</u>	<u>19,246</u>
Other Assets	<u>53,164</u>	<u>28,118</u>	<u>-</u>	<u>81,282</u>
Investment in Subsidiary	<u>2,817,509</u>	<u>-</u>	<u>(2,817,509)</u>	<u>-</u>
Total assets	<u>\$ 23,750,256</u>	<u>\$ 2,817,509</u>	<u>\$ (2,817,509)</u>	<u>\$ 23,750,256</u>
Current Liabilities				
Current maturities of long-term debt	\$ 267,701	\$ -	\$ -	\$ 267,701
Line of credit	577,000	-	-	577,000
Accounts payable	478,030	-	-	478,030
Accrued expenses	785,919	-	-	785,919
Total current liabilities	<u>2,108,650</u>	<u>-</u>	<u>-</u>	<u>2,108,650</u>
Long-term Liabilities				
Long-term debt	<u>2,932,248</u>	<u>-</u>	<u>-</u>	<u>2,932,248</u>
Total liabilities	<u>5,040,898</u>	<u>-</u>	<u>-</u>	<u>5,040,898</u>
Net Assets				
Unrestricted	6,192,717	1,852,603	(1,852,603)	6,192,717
Temporarily restricted	11,911,369	359,634	(359,634)	11,911,369
Permanently restricted	605,272	605,272	(605,272)	605,272
Total net assets	<u>18,709,358</u>	<u>2,817,509</u>	<u>(2,817,509)</u>	<u>18,709,358</u>
Total liabilities and net assets	<u>\$ 23,750,256</u>	<u>\$ 2,817,509</u>	<u>\$ (2,817,509)</u>	<u>\$ 23,750,256</u>

KidsTLC, Inc. and its Subsidiary
Consolidating Schedule of Financial Position
December 31, 2016

	KidsTLC, Inc.	TLC Charities Foundation	Eliminations	Consolidated
Current Assets				
Cash and cash equivalents	\$ 2,371,025	\$ 66,551	\$ -	\$ 2,437,576
Accounts receivable, net of allowance of \$148,000	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
Total current assets	<u>2,176,211</u>	<u>1,665,344</u>	<u>-</u>	<u>3,841,555</u>
Investments	<u>3,080,672</u>	<u>927,137</u>	<u>-</u>	<u>4,007,809</u>
Property and Equipment, At Cost				
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
Property and equipment, net	<u>15,202,978</u>	<u>-</u>	<u>-</u>	<u>15,202,978</u>
Asset Held for Sale, net	<u>226,885</u>	<u>-</u>	<u>-</u>	<u>226,885</u>
Contributions Receivable	<u>42,996</u>	<u>-</u>	<u>-</u>	<u>42,996</u>
Other Assets	<u>65,148</u>	<u>18,943</u>	<u>-</u>	<u>84,091</u>
Investment in Subsidiary	<u>2,611,424</u>	<u>-</u>	<u>(2,611,424)</u>	<u>-</u>
Total assets	<u>\$ 23,406,314</u>	<u>\$ 2,611,424</u>	<u>\$ (2,611,424)</u>	<u>\$ 23,406,314</u>
Current Liabilities				
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
Total current liabilities	<u>1,582,343</u>	<u>-</u>	<u>-</u>	<u>1,582,343</u>
Long-term Liabilities				
Long-term debt	<u>3,196,840</u>	<u>-</u>	<u>-</u>	<u>3,196,840</u>
Total liabilities	<u>4,779,183</u>	<u>-</u>	<u>-</u>	<u>4,779,183</u>
Net Assets				
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
Total net assets	<u>18,627,131</u>	<u>2,611,424</u>	<u>(2,611,424)</u>	<u>18,627,131</u>
Total liabilities and net assets	<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 Activities
Year Ended December 31, 2017

	KidsTLC, Inc.	TLC Charities Foundation	Eliminations	Consolidated
Revenues, Gains and Other Support				
Program revenue	\$ 13,645,419	\$ -	\$ -	\$ 13,645,419
Contributions	965,240	5,900	-	971,140
Grants	235,520	-	-	235,520
Fundraising and charities	629,292	-	-	629,292
Investment income	216,522	357,364	-	573,886
Gain on investment in subsidiary	206,085	-	(206,085)	-
Other revenues	315,293	9,174	-	324,467
	<u>16,213,371</u>	<u>372,438</u>	<u>(206,085)</u>	<u>16,379,724</u>
Expenses				
Program services	14,068,710	-	-	14,068,710
Management and general	1,158,055	-	-	1,158,055
Fundraising and charities	904,379	166,353	-	1,070,732
	<u>16,131,144</u>	<u>166,353</u>	<u>-</u>	<u>16,297,497</u>
Increase in Net Assets	<u>\$ 82,227</u>	<u>\$ 206,085</u>	<u>\$ (206,085)</u>	<u>\$ 82,227</u>

KidsTLC, Inc. and its Subsidiary
Consolidating Schedule of Activities
Year Ended December 31, 2016

	KidsTLC, Inc.	TLC Charities Foundation	Eliminations	Consolidated
Revenues, Gains and Other Support				
Program revenue	\$ 12,951,352	\$ -	\$ -	\$ 12,951,352
Contributions	915,371	125	-	915,496
Grants	260,261	-	-	260,261
Fundraising and charities	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>
Expenses				
Program services	13,467,562	-	-	13,467,562
Management and general	1,156,435	-	-	1,156,435
Fundraising and charities	992,343	79,765	-	1,072,108
	<u>15,616,340</u>	<u>79,765</u>	<u>-</u>	<u>15,696,105</u>
Increase (Decrease) in Net Assets	<u>\$ (376,134)</u>	<u>\$ 73,272</u>	<u>\$ (73,272)</u>	<u>\$ (376,134)</u>