SPECIAL SPACES, INC.

Knoxville, Tennessee

FINANCIAL STATEMENTS

December 31, 2018 and 2017

PUGH CPAs

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Special Spaces, Inc.
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Special Spaces, Inc. which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Special Spaces, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
June 13, 2019

SPECIAL SPACES, INC.

STATEMENTS OF FINANCIAL POSITION

As of December 31,	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	$ 688,190	$ 543,024
Receivables	55,377	5,000
Prepaid Expenses	34,890	0
Total Current Assets	778,457	548,024
PROPERTY AND EQUIPMENT		
Furniture and Equipment	19,091	18,660
Accumulated Depreciation	(15,381)	(13,640)
Total Furniture and Equipment, Net	3,710	5,020
TOTAL ASSETS	$ 782,167	$ 553,044
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued Expenses	$ 13,168	$ 18,778
Deferred Revenue	67,674	37,000
Total Current Liabilities	80,842	55,778
NET ASSETS		
Net Assets Without Donor Restrictions	701,325	497,266
TOTAL LIABILITIES AND NET ASSETS	$ 782,167	$ 553,044

The accompanying notes are an integral part of these financial statements.

SPECIAL SPACES, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended December 31,	2018	2017
REVENUES WITHOUT DONOR RESTRICTIONS		
Contributions	$ 854,267	$ 646,685
Fund Raising Activities, Net	355,613	162,363
Miscellaneous Income	176	124
Total Revenues Without Donor Restrictions	1,210,056	809,172
EXPENSES		
Program Services	844,600	714,571
Management and General	107,544	99,006
Fundraising	53,853	54,682
Total Expenses	1,005,997	868,259
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	204,059	(59,087)
NET ASSETS, BEGINNING OF YEAR	497,266	556,353
NET ASSETS, END OF YEAR	$ 701,325	$ 497,266

The accompanying notes are an integral part of these financial statements.

SPECIAL SPACES, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

	Program Services	Management and General	Fundraising	Total
Materials and Labor for Room Makeovers	$ 672,434	$ 0	$ 0	$ 672,434
Salaries and Related	95,992	47,570	23,998	167,560
Office Expenses	5,063	4,386	0	9,449
Rent	19,394	4,596	4,596	28,586
Travel	8,913	0	0	8,913
Professional Fees	7,800	41,492	0	49,292
Staff Development	875	0	0	875
Business Insurance	3,330	3,329	3,329	9,988
Volunteer Hospitality	21,822	0	0	21,822
Fundraising - Expenses Indirect	0	0	18,589	18,589
Maintenance, Utilities and Phone	5,093	2,627	2,627	10,347
Bank Fees	2,987	134	134	3,255
State Registrations	30	2,830	0	2,860
Advertising and Promotion	286	0	0	286
Depreciation	581	580	580	1,741
Total	$ 844,600	$ 107,544	$ 53,853	$ 1,005,997

For the Year Ended December 31, 2017

	Program Services	Management and General	Fundraising	Total
Materials and Labor for Room Makeovers	$ 575,275	$ 0	$ 0	$ 575,275
Salaries and Related	72,038	58,246	27,184	157,468
Office Expenses	6,716	9,151	0	15,867
Rent	19,157	4,589	4,589	28,335
Travel	7,463	0	0	7,463
Professional Fees	6,075	17,852	0	23,927
Staff Development	355	0	0	355
Business Insurance	2,509	2,509	2,509	7,527
Volunteer Hospitality	15,206	0	0	15,206
Fundraising - Expenses Indirect	0	0	16,682	16,682
Maintenance, Utilities and Phone	3,127	2,353	2,353	7,833
Bank Fees	4,168	379	379	4,926
State Registrations	110	3,040	0	3,150
Advertising and Promotion	1,485	0	99	1,584
Depreciation	887	887	887	2,661
Total	$ 714,571	$ 99,006	$ 54,682	$ 868,259

SPECIAL SPACES, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Total Net Assets	$ 204,059	$ (59,087)
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation of Furniture and Equipment	1,741	2,661
(Increase) Decrease in Receivables	(50,377)	0
Increase (Decrease) in Liabilities	(5,610)	(9,013)
Increase (Decrease) in Deferred Revenue	30,674	37,000
(Increase) Decrease in Prepaid Expenses	(34,890)	0
Total Adjustments	(58,462)	30,648
Net Cash Provided by (Used in) Operating Activities	145,597	(28,439)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Furniture and Equipment	(431)	(1,445)
NET INCREASE (DECREASE) IN CASH	145,166	(29,884)
CASH AT BEGINNING OF YEAR	543,024	572,908
CASH AT END OF YEAR	$ 688,190	$ 543,024

The accompanying notes are an integral part of these financial statements.

SPECIAL SPACES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1 - NATURE OF OPERATIONS

Special Spaces, Inc. is a not-for-profit organization whose principal purpose is to develop and construct customized rooms for children with critical illnesses. Special Spaces, Inc. (the "Organization") was organized in 2004 and currently has 23 chapter locations across the United States. The Organization is supported by local businesses, corporations and other groups. These supporters generally provide a team of volunteers to help with the decorating and completion of each child's room. The Organization is governed by a volunteer board of directors. All chapters also have volunteer chapter directors who oversee the activities within their chapters. The Organization's national office operates in Knoxville, Tennessee.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by the Organization:

Basis of Accounting - The financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP).

Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could vary from those estimates.

Change in Accounting Principle - In 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization implemented ASU 2016-14 and has adjusted the presentation of these statements accordingly.

Basis of Presentation - Net assets and revenues, expenses, gains and losses are classified based on existence or absence of donor -imposed restrictions. All net assets of the Organization are considered to without donor restrictions.

Support and Revenue - Contributions are recorded as support when cash or other assets are received. Contributions are recorded as with donor restrictions or without donor restrictions depending on the existence and nature of any donor restrictions. Restricted grants and contributions whose restrictions are met in the same reporting period as they are received are reported as unrestricted. The Organization does not solicit donor pledges; therefore, all contributions are recorded to revenue when the donor remits payment.

Contributions of property and equipment with explicit restrictions that specify how the assets are to be used, including cash contributed to acquire such assets, are recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the expiration of donor restrictions is reported when the donated or acquired assets are placed in service.

Revenues from fundraising activities are presented net of the direct costs associated with these activities.

Donated Goods and Services - Donated goods and services are recorded as contributions at their estimated fair values at the date of donation. Voluntary donations of services are recorded when those services (a) create or enhance non-financial assets or (b) require specialized skills that would be typically purchased if not provided by donation. The value of donated goods and services included in the financial statements for the year ended December 31, 2018 is $120,000 and $99,000 ($136,000 and $61,000 in 2017), respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, a substantial number of unpaid volunteers have made significant contributions of their personal time. The value of this contributed time is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.

Receivables - Receivables are stated at the amount management expects to collect from outstanding balances. Receivables are written off when they are determined to be uncollectible. The Organization has evaluated the accounts and considers accounts receivable to be fully collectible; accordingly, no allowance for uncollectible receivables is required.

Property and Equipment - Property and equipment are stated at cost, net of accumulated depreciation. Gifts of property and equipment are recorded at their fair market value when received. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

Cash - The chapters have raised funds totaling approximately $608,000 and $543,000 for the years ended December 31, 2018 and 2017, respectively, that is included in cash for the future development and construction of rooms.

Income Tax Status - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization files annual returns of organizations exempt from income taxes with the IRS.

Advertising and Promotion - The Organization expenses advertising and marketing costs as incurred. The Organization recognized a total of $286 and $1,584 in advertising and marketing costs for the years ended December 31, 2018 and 2017, respectively.

Functional Expenses Allocation - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Costs are charged to program services, management and general, and fund-raising functions based on direct expenses incurred. Indirect expenses are allocated among the program and supporting services benefited.

Evaluation of Subsequent Events - The Organization’s management has evaluated subsequent events through June 13, 2019, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.

Recent Accounting Pronouncements - In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019. The adoption of this guidance is not expected to result in a material change to lessee expense recognition. Management will continue to evaluate the impact of this guidance on the financial statements.

ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* In May 2014, the FASB issued a new accounting standard that requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. The FASB has also issued several updates to ASU 2014-09. The new standard supersedes U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the present standards. It also requires additional disclosures. The standard is effective for annual reporting periods beginning after December 15, 2018. The Organization is currently evaluating the effect on the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. **For resource recipients:** Where the Organization is the resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. **For resource providers:** Where the Organization is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019 and interim periods within annual periods beginning after December 15, 2020. The Organization is currently evaluating the impact of the adoption of this guidance on its financial statements.

NOTE 3 - CONCENTRATIONS OF RISK

The Organization maintains its cash in two financial institutions. The cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC) at each institution up to $250,000 per legal ownership. From time to time, the Organization may hold deposits in excess of the insured limits.

The Organization receives a significant portion of its revenue in the form of contributions and donations from individuals, corporations and other entities. Large fluctuations in these types of support and revenue could have a negative impact upon the level and types of activities and programs offered by the Organization.

NOTE 4 - AVAILABLE RESOURCES AND LIQUIDITY

The Organization regularly monitors the availability of resources required to meet its recurring operating needs. The Organizations operating expenses average approximately $800,000 annually depending on the number of rooms completed. For purposes of analyzing resources available to meet expenditures over a 12-month period, the Organization considers all cash expenditures related to its ongoing activities.

As of December 31, 2018, the following financial assets could readily be made available within one year of the statement of financial position date to meet cash expenditures. Amounts not available to meet cash expenditures within one year also would include net assets with restrictions or financial assets with internal designations. There were no restrictions or designations at December 31, 2018.

	2018	2017
Cash and Cash Equivalents	$ 688,190	$ 543,024
Accounts Receivable, Net	55,377	5,000
Financial Assets Available to Meet Cash Needs Within One Year	$ 743,567	$ 548,024

In addition to financial assets available to meet cash expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover cash expenditures. Refer to the statement of cash flows which identifies the sources and uses of the Organization's cash and shows positive cash generated by operations for the year ended December 31, 2018.