

***Special Kids, Inc.***

(A Nonprofit Corporation)

**Consolidated Financial Statements**

**With Independent Auditors' Report Thereon**

For the Years Ended December 31, 2019 and 2018

**H A Beasley & Company, PLLC**

**Certified Public Accountants**

**Murfreesboro, Tennessee**



**H A Beasley  
& Company, PLLC**  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Special Kids, Inc.

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Special Kids, Inc., which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows 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.

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

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Special Kids, Inc. as of December 31, 2019 and 2018, and the changes in its net assets, functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

H A Beasley & Company, PLLC  
July 31, 2020

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Murfreesboro Office: P.O. Box 11669 • 111 MTCS Road • Murfreesboro, TN 37129 • (615) 895-5675  
Shelbyville Office: P.O. Box 1044 • 300 Bethany Lane • Shelbyville, TN 37162 • (931) 680-0660  
www.HABeasley.com

**SPECIAL KIDS, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 765,415	\$ 627,011
Investments	73,901	52,600
Accounts receivable, net	112,332	159,625
Promises to give, net	127,766	24,702
Prepaid expenses and other	41,086	48,966
Total current assets	1,120,500	912,904
 <b>PROPERTY AND EQUIPMENT, NET</b>	 2,422,864	 2,528,784
 <b>OTHER ASSETS</b>		
Promises to give, net of current portion	-	1,500
Assets restricted to donor endowment	1,595,964	808,385
Total other assets	1,595,964	809,885
 <b>TOTAL ASSETS</b>	 <b>\$ 5,139,328</b>	 <b>\$ 4,251,573</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Note payable	\$ -	\$ 75,391
Accounts payable	28,492	14,292
Accrued expenses	148,625	155,707
Deferred revenue	60,565	158,465
Total current liabilities	237,682	403,855
 <b>NET ASSETS</b>		
Without donor restrictions	3,324,129	2,922,014
With donor restrictions	1,577,517	925,704
Total net assets	4,901,646	3,847,718
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b>\$ 5,139,328</b>	 <b>\$ 4,251,573</b>

See accompanying notes to consolidated financial statements and independent auditors' report.

**SPECIAL KIDS, INC.**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019			2018		
	Without	With	Totals	Without	With	Totals
	Donor Restrictions	Donor Restrictions	Donor Restrictions	Donor Restrictions	Donor Restrictions	Donor Restrictions
Revenue and Support						
Patient fees						
Bureau of TennCare	\$ 985,615	\$ -	\$ 985,615	\$ 951,725	\$ -	\$ 951,725
Private insurance	865,313	-	865,313	751,128	-	751,128
Private pay	261,859	-	261,859	222,086	-	222,086
Total patient fees	2,112,787	-	2,112,787	1,924,939	-	1,924,939
Other revenue and support						
Private gifts and grants	603,261	707,265	1,310,526	579,388	359,228	938,616
In-kind donations, net of expenses	84,978	-	84,978	22,666	-	22,666
Special events and activities, net	552,374	-	552,374	454,523	-	454,523
Unrealized gain (loss) on investments	130,509	-	130,509	(71,816)	-	(71,816)
Realized gain on investments	24,182	-	24,182	22,845	-	22,845
Investment income, net	15,431	-	15,431	6,952	-	6,952
Total revenue and support	3,523,522	707,265	4,230,787	2,939,497	359,228	3,298,725
Net assets released from donor restrictions:						
Satisfaction of program restrictions	55,452	(55,452)	-	281,857	(281,857)	-
Total revenue and support	3,578,974	651,813	4,230,787	3,221,354	77,371	3,298,725
Expenses						
Program services	2,445,374	-	2,445,374	2,368,826	-	2,368,826
Supporting services						
Management and general	220,999	-	220,999	215,000	-	215,000
Fundraising	508,906	-	508,906	492,199	-	492,199
Total expenses	3,175,279	-	3,175,279	3,076,025	-	3,076,025
Other income (expenses)						
Miscellaneous income (expenses)	1,830	-	1,830	1,450	-	1,450
Interest expense	(784)	-	(784)	(4,279)	-	(4,279)
Gain (loss) on disposal of equipment	(2,626)	-	(2,626)	3,000	-	3,000
Total other income (expenses)	(1,580)	-	(1,580)	171	-	171
CHANGE IN NET ASSETS	402,115	651,813	1,053,928	145,500	77,371	222,871
NET ASSETS AT BEGINNING OF YEAR	2,922,014	925,704	3,847,718	2,776,514	848,333	3,624,847
NET ASSETS AT END OF YEAR	\$ 3,324,129	\$ 1,577,517	\$ 4,901,646	\$ 2,922,014	\$ 925,704	\$ 3,847,718

See accompanying notes to consolidated financial statements and independent auditors' report.

**SPECIAL KIDS, INC.**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019			2018			
	Supporting Services		Totals	Supporting Services		Totals	
	Program Services	Management and General		Fund-raising	Management and General		Fund-raising
Compensation and related expenses:							
Wages	\$ 1,820,466	\$ 140,036	\$ 373,429	\$ 2,333,931	\$ 1,796,407	\$ 368,494	\$ 2,303,086
Payroll taxes	134,835	10,372	27,658	172,865	121,158	24,853	155,331
Employee benefits	115,671	8,898	23,727	148,296	116,011	23,797	148,732
Total	2,070,972	159,306	424,814	2,655,092	2,033,576	417,144	2,607,149
Professional fees	-	32,866	-	32,866	-	-	32,259
Depreciation and amortization	108,455	8,343	22,247	139,045	102,173	20,959	130,991
Loss on bad debts	3,961	-	-	3,961	(4,255)	-	(4,255)
Bank charges	5,979	460	1,226	7,665	7,698	1,579	9,869
Travel, meals and entertainment	1,608	124	330	2,062	2,443	501	3,132
Telephone and internet	15,609	1,201	3,201	20,011	18,659	3,828	23,922
Endowment fundraising expense	-	-	786	786	-	1,118	1,118
Postage	2,352	181	482	3,015	1,700	348	2,179
Consulting	9,368	-	-	9,368	11,735	-	11,735
Supplies	53,116	4,086	10,895	68,097	43,101	8,842	55,258
Repairs and maintenance	52,169	4,013	10,701	66,883	29,990	6,152	38,449
Family support	9,668	-	-	9,668	9,837	-	9,837
Insurance	46,601	3,585	9,559	59,745	51,082	10,479	65,490
Conferences and events	-	-	3,072	3,072	-	3,209	3,209
Website maintenance	-	-	216	216	-	216	216
Subscriptions	31,548	2,427	6,471	40,446	29,313	6,013	37,581
Marketing	-	-	9,391	9,391	-	6,428	6,428
Real estate taxes	-	2,339	-	2,339	-	-	2,283
Lease expense	7,083	-	-	7,083	5,532	-	5,532
Licenses, registrations and taxes	524	40	108	672	451	92	578
Uniforms	2,781	214	571	3,566	4,097	841	5,253
Other expense	1,792	138	367	2,297	881	181	1,129
Utilities	21,788	1,676	4,469	27,933	20,813	4,269	26,683
Total functional expenses	\$ 2,445,374	\$ 220,999	\$ 508,906	\$ 3,175,279	\$ 2,368,826	\$ 492,199	\$ 3,076,025

See accompanying notes to consolidated financial statements and independent auditors' report.

**SPECIAL KIDS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,053,928	\$ 222,871
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	139,045	130,991
Unrealized (gain) loss on investments	(130,509)	71,816
Realized gain on investments	(24,182)	(22,845)
Non-cash donation of investments	(80,800)	(9,988)
Non-cash donation of furniture and equipment	(4,178)	(22,666)
Loss (gain) on disposal of equipment	2,626	(3,000)
(Increase) decrease in operating assets:		
Accounts receivable, net	47,293	(11,727)
Promises to give, net	(101,564)	6,928
Prepaid expenses and other	7,880	(17,454)
Increase (decrease) in operating liabilities:		
Accounts payable	14,200	(9,112)
Accrued expenses	(7,082)	23,358
Deferred revenue	(97,900)	157,175
Net cash provided by operating activities	818,757	516,347
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(425,353)	(378,830)
Proceeds from sale of equipment	2,500	3,000
Purchase of property and equipment	(34,073)	(145,929)
Net cash used for investing activities	(456,926)	(521,759)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on note payable	(75,391)	(42,460)
Net cash used for financing activities	(75,391)	(42,460)
Net increase (decrease) in cash, cash equivalents, and restricted cash	286,440	(47,872)
Beginning cash and equivalents and restricted cash	757,192	805,064
Ending cash and equivalents and restricted cash	\$ 1,043,632	\$ 757,192

See accompanying notes to consolidated financial statements and independent auditors' report.

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

**NOTE A – NATURE OF ACTIVITIES, PRINCIPLES OF CONSOLIDATION AND SIGNIFICANT ACCOUNTING PRINCIPLES**

Nature of Activities

Special Kids, Inc. (the “Organization”) is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is located in Murfreesboro, Tennessee. The Organization is dedicated to providing quality and affordable rehabilitation and nursing services in a Christian environment. The goal is that no family would be denied service due to lack of funding, or access to services. The Organization believes the family unit is important and by offering quality-coordinated services, the Organization strives to minimize the pressures of parenting a child with special needs.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Special Kids, Inc. and Special Kids Real Estate, LLC (the consolidated group referred to as the “Organization” or “Special Kids, Inc.”). Special Kids Real Estate, LLC is a single member limited liability company (L.L.C.). Special Kids, Inc. is the sole member of Special Kids Real Estate, LLC. All material intercompany balances and transactions have been eliminated in consolidation.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis.

Basis of Presentation

The Organization presents its consolidated financial statements in accordance with Financial Accounting Standards Board (“FASB”) *Accounting Standards Codification (“ASC”) 958, Financial Statements for Not-for-Profit Entities*. Accordingly, the Organization reports information regarding its consolidated financial position and activities according to the two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Net Assets Without Donor Restrictions

Net assets without donor restrictions include unrestricted resources which represent the portion of funds that are available for the operating objectives of the Organization.

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of donor restricted contributions and grants. Amounts restricted by donors for a specific purpose are deemed to be earned and reported as revenue with restrictions, when received, and such unexpended amounts are reported as net assets with restrictions at year-end. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as “net assets released from donor restrictions”. Net assets with donor restrictions whose restrictions are met in the period the contributions are received are reported as net assets without donor restrictions.

Use of Estimates

The preparation of the consolidated 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 amount of revenue and other support and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

**NOTE A – NATURE OF ACTIVITIES, PRINCIPLES OF CONSOLIDATION AND SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)**

Cash and Equivalents

Cash and equivalents include cash and short-term investments with an initial maturity date of three months or less. Cash and equivalents as of December 31, 2019 and 2018 that were permanently restricted by donors for endowment purposes was \$278,217 and \$130,181, respectively. Since these funds are not available for current operations, they are presented as a long-term asset.

Investments

The Organization follows the Not-For-Profit Entities subtopic and Revenue Recognition subtopic of the FASB ASC with respect to investments. Under this subtopic, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated statements of financial position.

The Fair Value Measurements and Disclosures topic of FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority.

The Organization uses appropriate valuation techniques based on available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs would be used only when Level 1 or Level 2 inputs were not available.

Unrealized gains and losses are included in the change in net assets without donor restrictions.

Accounts Receivable, Net

Accounts receivable consist of services provided to be paid by either the family or insurance companies. The accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Accounts with balances greater than 30 days old are considered past due receivable accounts. The Organization does not charge interest or a finance charge on past due receivable accounts. The amounts expected to be collected from the insurance companies is reduced due to contractual obligations with the insurance companies. The Organization has recorded a contractual allowance to net against the accounts receivable balances for the estimated contractual reduction of insurance claims. The estimated allowance for uncollectible accounts receivable is based on management's judgment of such factors as prior collection history and nature of activity. As of December 31, 2019 and 2018, management has estimated the allowance for uncollectible accounts receivable to be \$8,846 and \$4,885, respectively.

Promises to Give, Net

Promises to give consist of contributions due in less than one year that are recorded at their realizable value upon receipt and contributions due in more than one year that are recorded at their discounted value. An allowance for doubtful collectability is provided based upon management's judgment, including such factors as prior collection history, type of contribution and nature of the fund-raising activity. As of December 31, 2019 and 2018, management has estimated the allowance for doubtful collectability to be \$981 and \$3,152, respectively.



**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

**NOTE A – NATURE OF ACTIVITIES, PRINCIPLES OF CONSOLIDATION AND SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)**

Property and Equipment

The Organization capitalizes all property and equipment expenditures with a cost of \$500 or more and having estimated useful lives of more than one year. Property and equipment are recorded at cost or, for donated items, at fair value as of the date received. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense when incurred.

When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the consolidated statement of activities for the respective period. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Building and improvements	15 – 40 years
Furniture and equipment	5 – 7 years
Software	5 years

Contributions of long-lived assets or contributions restricted for acquisition of long-lived assets are reported as increases in net assets with donor restrictions. When restrictions are considered met, an appropriate amount is reclassified to net assets without donor restrictions. The useful lives of the long-lived assets are calculated based on the organization's depreciation policy.

Contributions

*ASU No. 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* requires three classifications of contributions received in the current year: conditional, unconditional with donor restrictions, or unconditional without donor restrictions. Conditional contributions, including conditional promises to give, are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Unconditional contributions, including unconditional promises to give are recognized as revenue in the period received.

A summary of these classifications as they relate to grants received as of December 31, 2019 and 2018 are as follows:

	2019	2018
Conditional	\$ 38,070	\$ 140,741
Unconditional with donor restrictions	\$ 126,015	\$ 126,336
Unconditional without donor restrictions	\$ 80,036	\$ 85,750

The conditional contributions are reflected in the deferred revenue on the consolidated statement of financial position as of December 31, 2019 and 2018.

Contributions of assets and specialized services are recorded at their estimated fair value. Contributions of professional services used in conjunction with general operations and certain fundraising events and recognized as income for the years ended December 31, 2019 and 2018 totaled \$19,025 and \$32,000, respectively.

Restricted contributions whose restrictions are met or accrued in the period the contributions are received are reported as contributions without donor restrictions.

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

**NOTE A – NATURE OF ACTIVITIES, PRINCIPLES OF CONSOLIDATION AND SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)**

Contributions (continued)

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Revenue Recognition of Patient Fees

The Organization offers family resources, outpatient rehabilitation services and professional nursing services for children with special needs. The Organization recognizes revenue on patient fees upon the date of service.

Deferred Event Revenue

The Organization each year organizes a Special Kids Race as a fundraiser for the Organization. Runners in the race will submit their registration fee for the Special Kids Race before the day of the race. Deferred revenue includes race registration fees received before the race. As of December 31, 2019 and 2018 the Organization has received \$12,495 and \$17,724, respectively, for the race in the subsequent period. As of December 31, 2019 and 2018, the Organization had also received sponsorships for the annual golf event to be held in the following year totaling \$10,000 and \$-0-, respectively.

Functional Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the program services, management and general and fundraising.

Income Taxes

The Organization is a not-for-profit organization that is exempt from federal income tax under Internal Revenue Code Section 501(c)(3) whereby only unrelated business income, as defined in Section 512(a)(1) of the Code, is subject to federal income tax. With few exceptions, the Organization is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2016, and to state tax authorities for years before 2014.

The Organization has evaluated its tax positions for all open tax years. Based on the evaluation of the Organization's tax positions, management believes all tax positions taken would be upheld under an examination; therefore, no provision for the effects of uncertain positions has been recorded for the years ended December 31, 2019 and 2018.

Reclassification

Certain reclassifications have been made to the 2018 financial statements to conform to the presentation for 2019.

**NOTE B –IMPLEMENTATION OF NEW AUTHORITATIVE ACCOUNTING GUIDANCE**

ASU 2016-14

During the year ended December 31, 2018, the Organization implemented the *ASU No. 2016-14, Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*, which requires the Organization to report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the currently required amount for total net assets. The Organization has applied the new standard on a retrospective basis. There was no cumulative effect on the financial statements due to the application of this ASU. The change only affects the presentation of net assets in both the current and prior years from reporting unrestricted, temporarily restricted and permanently restricted net assets to net assets with and without donor restriction.

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

NOTE B –IMPLEMENTATION OF NEW AUTHORITATIVE ACCOUNTING GUIDANCE (CONTINUED)

ASU 2018-08

During the year ended December 31, 2018, management decided to early adopt the amendments in the *ASU No. 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which assists the Organization in evaluating whether transactions should be accounted for as contributions within the scope of Topic 958, Not-for-Profit Entities, or as an exchange transaction subject to other guidelines. It also requires a determination of whether a contribution is considered conditional. The Organization has applied the new standard on a modified prospective basis. There was no cumulative effect on the financial statements. The change only affects the deferred revenue and grant income accounts as of December 31, 2018.

ASU 2016-15

During the year ended December 31, 2019, the Organization implemented *FASB ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* addressing the presentation of certain cash receipts and payments. The Organization did apply this new standard retrospectively, but there was no material impact on the Organization’s results of operations, financial condition, or cash flows upon adoption of the new standard as they did not have any of the specified transactions addressed by this new standard.

ASU 2016-01

In 2019, the Organization adopted *FASB ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which relates to the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The Organization has applied this new standard prospectively to all equity investments without readily determinable fair values as of the date of adoption as allowed by the standard. There was neither a significant effect to any line item on the balance sheet nor a cumulative effect to retained earnings or other components of equity resulting from the adoption of the new standard as they did not have any investments without a readily determinable fair value.

NOTE C – INVESTMENTS

Investments are stated at fair value and are summarized as follows as of December 31, 2019 and 2018:

	2019		2018	
	Cost	Value	Cost	Value
Equity securities	\$ 66,979	\$ 73,901	\$ 48,869	\$ 52,600
Endowment	<u>1,240,007</u>	<u>1,317,747</u>	<u>727,782</u>	<u>678,204</u>
Total investments	<u>\$ 1,306,986</u>	<u>\$ 1,391,648</u>	<u>\$ 776,651</u>	<u>\$ 730,804</u>

For donated investments, cost is determined to be the fair value at the date of gift. During the years ended December 31, 2019 and 2018, the Organization received \$80,800 and \$9,988, respectively, in donated investments. As of December 31, 2019 and 2018, the unrealized gain (loss) on investments totaled \$84,662 and \$(45,847), respectively. During the years ended December 31, 2019 and 2018, the change in the unrealized gain (loss) on investments totaled \$130,509 and (\$71,816), respectively. Investment income net of expenses for the years ended December 31, 2019 and 2018 totaled \$14,405 and \$6,248, respectively.

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

NOTE C – INVESTMENTS (CONTINUED)

The equity securities are shown in the consolidated statements of financial position as current assets and the endowment is shown as a long-term asset.

In 2016, the Organization created an agency endowment named “The Special Kids Endowment Fund” (the “endowment”) by entering into an agreement with, and transferring funds to, The Community Foundation of Middle Tennessee, Inc. (the “Foundation”), a Tennessee not-for-profit corporation, exempt under Internal Revenue Code 501(c) (3) for its charitable, educational and public purposes.

The Foundation has the ultimate authority and control over all property of the endowment, and the income derived therefrom, for use in furthering the charitable purposes of the Foundation.

The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of relevant law in relation to the agency endowment*

The Organization has interpreted the State Prudent Management of Institutional Funds Act (“SPMIFA”) as requiring the preservation of the fair value of the original board designation. As a result of this interpretation, the Organization classifies as net assets with donor restrictions at (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 the donor-restricted endowment fund that is not classified in net assets with donor restrictions is classified as net assets without donor restrictions until those amounts are appropriated for expenditures 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) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) The investment policies of the Organization

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

NOTE C – INVESTMENTS (CONTINUED)

As of December 31, 2019 and 2018 the endowment included net assets designated by the board for endowment and donor restricted funds received from investors for endowment. The contribution activity in the endowment during the years ended December 31, 2019 and 2018 and the balance as of December 31, 2019 and 2018 are as follows:

	<u>Board Designated for Endowment</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Balance as of December 31, 2017	\$ 12,791	\$ 535,486	\$ 548,277
Contributions	<u>6,660</u>	<u>283,506</u>	<u>290,166</u>
Balance as of December 31, 2018	19,451	818,992	838,443
Contributions	<u>16,579</u>	<u>596,440</u>	<u>613,019</u>
Balance as of December 31, 2019	<u>\$ 36,030</u>	<u>\$ 1,415,432</u>	<u>\$ 1,451,462</u>

*Return objectives and risk parameters of the agency endowment*

The Organization operates with investment and spending policies for endowment assets that attempt to provide a steady stream of funding to programs supported by its endowment while maintaining its long-term value. Endowment assets include those of board-designated funds. The Foundation invests the assets in a manner that is intended to produce income while incurring a moderate level of investment risk. Each year, the Foundation sets a percentage draw from endowment funds that are intended to allow them to grow in value, while also supporting the general purposes and objectives of the Organization.

*Strategies employed for achieving objectives*

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 capital appreciation (realized and unrealized) and current yield (interest and dividends).

*Spending practice and how the investment objectives relate to spending practice*

The Organization's endowment policy sets a draw from endowment funds appropriate for distribution in subsequent fiscal years as needed by the Organization to meet its needs in order to prudently preserve capital in a difficult economic environment. The Organization may annually request a distribution from the endowment for use in the Organization's operations in an amount up to the greater of 7.0% of the agency fund value or the amount in excess of the permanently restricted gifts. During the years ended December 31, 2019 and 2018, the Organization did not receive any distributions from the endowment.

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 at an average of 1 to 2 percent annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for specified terms as well as to provide additional real growth through investment return.

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

NOTE C – INVESTMENTS (CONTINUED)

Fair value measurements as of December 31, 2019 and 2018 are determined as follows:

Fair Value Measurements at December 31, 2019				
	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Totals
Equity securities	\$ 73,901	\$ -	\$ -	\$ 73,901
Endowment	-	-	1,317,747	1,317,747
Totals	\$ 73,901	\$ -	\$ 1,317,747	\$ 1,391,648

  

Fair Value Measurements at December 31, 2018				
	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Totals
Equity securities	\$ 52,600	\$ -	\$ -	\$ 52,600
Endowment	-	-	678,204	678,204
Totals	\$ 52,600	\$ -	\$ 678,204	\$ 730,804

The Level 3 investments are reported at fair value on a recurring basis determined by reference to quoted market prices for similar assets. The following table sets forth a summary of changes in the fair value of the Organization's Level 3 investments for the year ended December 31, 2019 and 2018:

	2019	2018
Balance, beginning of year	\$ 678,204	\$ 347,820
Contributions	474,498	372,435
Investment income	20,061	9,214
Investment fees	(6,256)	(3,742)
Realized gains	24,795	14,703
Unrealized gains (loss) related to investments still held at the reporting date	126,445	(62,226)
Balance, end of year	\$ 1,317,747	\$ 678,204

**Special Kids, Inc.**  
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**NOTE D – ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net is composed of the following as of December 31, 2019 and 2018:

	2019	2018
Accounts receivable	\$ 125,509	\$ 250,757
Allowance for contractual adjustments	(7,331)	(86,247)
Allowance for uncollectible accounts receivable	(8,846)	(4,885)
Other receivables	3,000	-
Total accounts receivable, net	\$ 112,332	\$ 159,625

**NOTE E – PROMISES TO GIVE, NET**

As of December 31, 2019 and 2018, unconditional promises to give, net, are due as follows:

	2019	2018
Due within 1 year	\$ 128,776	\$ 27,912
Due within 1 to 5 years	-	1,500
Total	128,776	29,412
Present value discount	(29)	(58)
Allowance for doubtful pledges	(621)	-
Allowance for uncollectible promises to give	(360)	(3,152)
Promises to give, net	127,766	26,202
Current portion of promises to give, net	127,766	24,702
Promises to give, net of current portion	\$ -	\$ 1,500

As of December 31, 2019, \$94,898 of promises to give, net is restricted for land improvements.

**NOTE F – ASSETS RESTRICTED FOR DONOR ENDOWMENT**

The assets restricted for donor endowment as of December 31, 2019 and 2018 consist of the following:

	2019	2018
Restricted cash	\$ 278,217	\$ 130,181
Investments	1,317,747	678,204
Total assets restricted for donor endowment	\$ 1,595,964	\$ 808,385

**Special Kids, Inc.**  
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**NOTE G – PROPERTY AND EQUIPMENT, NET**

Property and equipment, net is composed of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 358,340	\$ 358,340
Building and improvements	2,220,437	2,212,937
Construction in progress	797	-
Furniture and equipment	407,531	408,358
Leasehold improvements	178,252	164,518
Software	<u>135,558</u>	<u>124,594</u>
Totals	3,300,915	3,268,747
Less: Accumulated depreciation and amortization	<u>(878,051)</u>	<u>(739,963)</u>
Total property and equipment, net	<u>\$ 2,422,864</u>	<u>\$ 2,528,784</u>

For the years ended December 31, 2019 and 2018, depreciation and amortization totaled \$139,045 and \$130,991, respectively.

**NOTE H – ACCRUED EXPENSES**

Accrued expenses are composed of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Accrued payroll	\$ 48,726	\$ 40,968
Payroll related liabilities	3,528	2,209
Accrued paid time off	69,952	62,628
Accrued employee bonuses	11,509	29,305
Sales tax payable	15	17
Patient insurance overpayment	14,895	19,008
Other accrued expense	<u>-</u>	<u>1,572</u>
Total accrued expenses	<u>\$ 148,625</u>	<u>\$ 155,707</u>

**NOTE I – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Organization is supported in part by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors, thus some financial assets may not be available for general expenditure within one year.



**Special Kids, Inc.**  
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NOTE I – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)

The following reflects the Organization’s financial assets as of December 31, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the date of the statement of financial position.

Financial assets as of year-end:	
Cash and equivalents	\$ 765,415
Cash restricted for donor endowment	278,217
Investments	73,901
Accounts receivable, net	112,332
Promises to give, net	<u>127,766</u>
Total financial assets as of year-end	1,357,631
Less those unavailable for general expenditures within one year due to:	
Contractual or donor-imposed restrictions:	
Subject to appropriation and satisfaction of donor restrictions	162,085
Donor endowment	278,217
Board designations:	
Endowment	4,660
HALO fund	31,011
Macedonia fund	77,711
Buildings	<u>29,813</u>
Total unavailable for general expenditures within one year	<u>583,497</u>
Total financial assets available for general expenditures within one year	<u>\$ 774,134</u>

NOTE J – BOARD DESIGNATIONS OF NET ASSETS WITHOUT RESTRICTIONS

The Organization’s Board of Directors has designated, from net assets without donor restrictions of \$3,324,129 and \$2,922,011, net assets for the following purposes as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Designated net assets:		
Building fund	\$ 29,813	\$ 29,813
Macedonia Fund	77,711	69,422
HALO Fund	31,012	9,617
Endowment fund	<u>36,030</u>	<u>19,451</u>
Total designated net assets	174,566	128,303
Undesignated net assets	<u>3,149,563</u>	<u>2,793,711</u>
Total net assets without donor restrictions	<u>\$ 3,324,129</u>	<u>\$ 2,922,014</u>

The designations above are voluntary, board-approved segregations of net assets without donor restrictions for specific purposes and are used as an aid in planning future expenditures.

**Special Kids, Inc.**  
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**NOTE K – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with temporary donor restrictions include donations for providing scholarships to clients, and operating specific programs, and construction and renovation of the facilities. As of December 31, 2019 and 2018 support received totaled \$110,825 and \$87,717, respectively.

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specifically made by donors. The purpose of restrictions was accomplished by incurring costs for the following programs:

	2019	2018
Facilities construction and renovation	\$ 9,931	\$ 199,917
Equipment and software	-	2,876
Rehabilitation program scholarships	5,009	13,603
Camp Ability	9,645	19,075
Family services	-	932
Speech and group feeding therapy program	-	8,222
Nursing	7,914	17,332
Go Baby Go	-	3,052
Tiny Diners	2,612	12,741
Technology	15,000	-
Other projects	-	277
HALO Fund	161	-
Macedonia Fund	5,010	-
Servants Heart	170	3,830
Total net assets released from restrictions	<u>\$ 55,452</u>	<u>\$ 281,857</u>

The net assets with temporary donor restrictions as of December 31, 2019 and 2018 are subject to expenditures for the following purposes:

	2019	2018
Facilities construction and renovation	\$ 33,941	\$ 43,872
Equipment	-	15,000
Parking lot	95,898	-
Rehabilitation program scholarships	-	5,009
Camp Ability	-	9,645
Nursing	-	7,914
Tiny Diners	2,151	2,612
Director Development	3,050	-
Mindray Monitor	73	-
Software for Development team	300	-
HALO Fund	7,886	7,425
Macedonia Fund	18,786	15,065
Servants Heart	-	170
Total temporarily restricted net assets	<u>\$ 162,085</u>	<u>\$ 106,712</u>

**Special Kids, Inc.**  
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**NOTE K – NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)**

Net assets that are permanently restricted by the donors for endowment purposes were \$1,415,432 and \$818,992 as of December 31, 2019 and 2018, respectively. Income permanently restricted by donors for endowment purposes totaled \$596,440 and \$283,507 for the years ended December 31, 2019 and 2018, respectively.

**NOTE L – NOTE PAYABLE**

During 2015, the Organization entered into a note payable with a bank bearing an interest rate of 4.45% with monthly principal and interest payments of \$1,145 through June 2019 with a balloon payment due at that time. The note payable is collateralized by certain real estate. The note payable agreement allows the bank to demand the full principal payment prior to June 2019. The note payable was paid off in April of 2019. The outstanding balance of the note payable as of December 31, 2019 and 2018 was \$0 and \$75,391, respectively.

In December 2018, the Organization entered into a line of credit for \$250,000 with a bank bearing an interest rate of 5.25% per annum. The line of credit is payable on demand. As of both December 31, 2019 and 2018, the balance on the line of credit totaled \$-0-.

**NOTE M - CONCENTRATION OF RISK**

The Organization is highly dependent on insurance company reimbursement of fees for rehabilitation and nursing services, and to donors for charitable contributions. If the insurance funding for rehabilitation and nursing services decreased extensively, the Organization would experience difficulty in continuing operations.

Also, because the Organization is a TennCare provider there is a risk related to continuance of the TennCare program. Management indicated that it is expected that if the TennCare program is discontinued, another provider arrangement would be made or the services would revert to the federal Medicaid program.

At times throughout the year, the Organization may maintain cash balances in certain accounts in excess of the Federal Deposit Insurance Corporation (“FDIC”) limit of \$250,000 for substantially all depository accounts. As of December 31, 2019 and 2018, the Organization had funds in excess of the FDIC limits of \$-0- and \$199,307, respectively.

**NOTE N - RELATED PARTY TRANSACTIONS**

The Organization provided various patient services for the children of directors and employees throughout the years ended December 31, 2019 and 2018. Services provided for the children of directors and employees during the years ended December 31, 2019 and 2018 totaled \$8,173 and \$12,490, respectively.

Accounts receivable, net at December 31, 2019 and 2018 includes \$36 and \$2,207 due from directors’ and employees or their insurance companies, respectively, and is expected to be paid by insurance reimbursement.

Services provided to the Organization by board members and the family of an employee for the years ended December 31, 2019 and 2018 totaled \$15,060 and \$8,835, respectively.

**NOTE O – CASH FLOW INFORMATION**

During the years ended December 31, 2019 and 2018, net cash provided by operating activities included cash payments of interest totaling \$784 and \$4,729, respectively. There were no cash payments for income taxes during both years ended December 31, 2019 and 2018.

**Special Kids, Inc.**  
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NOTE O – CASH FLOW INFORMATION (CONTINUED)

During the years ended December 31, 2019 and 2018, non-cash investing activities excluded from the statements of cash flows include in-kind donations of property and equipment totaling \$4,178 and \$22,666 respectively, and investments of \$80,800 and \$9,988, respectively. In-kind contributions received during the years ended December 31, 2019 and 2018 totaled \$229,904 and \$147,640. Of those contributions, \$144,926 and \$124,974 were expensed as they were used in the various programs and events of the Organization.

Reconciliations of cash and equivalents and restricted cash reported within the consolidated statements of financial position to the total of the same amounts shown in the consolidated statements of cash flows are as follows as of December 31, 2019 and 2018:

	2019	0
Cash and equivalents	\$ 765,415	\$ 627,011
Cash restricted for donor endowment	278,217	130,181
Total cash and equivalents and cash restricted for donor endowment	\$ 1,043,632	\$ 757,192

Amounts included in restricted cash represent amounts restricted by donors for endowment purposes.

NOTE P - SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 31, 2020, which is the date the consolidated financial statements were available to be issued.

Management is currently evaluating the impact of the COVID-19 pandemic and has concluded that while it is reasonably possible that the virus could have a negative effect on the Organization's financial position, and results of its operations and cash flows, the specific impact is not readily determinable as of the date of these financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

There have been no other adjustments to the consolidated financial statements to include any subsequent transactions or events.