

Special Kids, Inc.

(A Nonprofit Corporation)

Consolidated Financial Statements

With Independent Auditors' Report Thereon

For the Years Ended December 31, 2021 and 2020

H A Beasley & Company, PLLC

Certified Public Accountants

Murfreesboro, Tennessee



Independent Auditors' Report

To the Board of Directors of
Special Kids, Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the financial statements of Special Kids, Inc., which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Special Kids, Inc. as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Special Kids, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Special Kids, Inc.'s ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

A Positive Difference Through Professional Accounting Service

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Special Kids, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Special Kids, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

H A Beasley & Company PLLC

H A Beasley & Company, PLLC
June 15, 2022

SPECIAL KIDS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

ASSETS		
	2021	2020
CURRENT ASSETS		
Cash and equivalents	\$ 2,629,217	\$ 1,930,730
Investments, net	46,959	42,428
Accounts receivable, net	55,907	37,832
Promises to give, net	12,785	40,098
Prepaid expenses and other	36,282	59,192
Total current assets	2,781,150	2,110,280
PROPERTY AND EQUIPMENT, NET	2,536,863	2,356,108
OTHER ASSETS		
Assets restricted to donor endowment	2,613,347	1,916,341
TOTAL ASSETS	\$ 7,931,360	\$ 6,382,729
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 30,345	\$ 21,348
Accrued expenses	185,396	238,714
Deferred revenue	48,164	153,197
Deferred special event revenue	5,109	315
Total current liabilities	269,014	413,574
NET ASSETS		
Without donor restrictions	5,150,253	4,273,981
With donor restrictions	2,512,093	1,695,174
Total net assets	7,662,346	5,969,155
TOTAL LIABILITIES AND NET ASSETS	\$ 7,931,360	\$ 6,382,729

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

SPECIAL KIDS, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021			2020		
	Without	With	Totals	Without	With	Totals
	Donor Restrictions	Donor Restrictions		Donor Restrictions	Donor Restrictions	
Revenue and Support						
Patient fees						
Bureau of TennCare	\$ 688,764	\$ -	\$ 688,764	\$ 591,498	\$ -	\$ 591,498
Private insurance	885,822	-	885,822	509,343	-	509,343
Private pay	152,345	-	152,345	118,567	-	118,567
Total patient fees	1,726,931	-	1,726,931	1,219,408	-	1,219,408
Other revenue and support						
Private gifts and grants	798,048	953,294	1,751,342	748,439	145,070	893,509
In-kind donations, net of expenses	1,909	-	1,909	1,000	-	1,000
Special events and activities, net	512,386	-	512,386	794,001	-	794,001
Fundraising events ticket sales	179,425	-	179,425	201,940	-	201,940
Less: Cost of direct benefit to donor	(65,319)	-	(65,319)	(90,937)	-	(90,937)
Net revenue from fundraising events	114,106	-	114,106	111,003	-	111,003
Unrealized gain on investments	90,582	-	90,582	69,909	-	69,909
Realized gain on investments	81,034	-	81,034	76,675	-	76,675
Investment income, net	40,923	-	40,923	40,872	-	40,872
Total revenue and support	3,365,919	953,294	4,319,213	3,061,307	145,070	3,206,377
Net assets released from donor restrictions:						
Satisfaction of program restrictions	136,375	(136,375)	-	27,413	(27,413)	-
Total revenue and support	3,502,294	816,919	4,319,213	3,088,720	117,657	3,206,377
Expenses						
Program services	2,368,584	-	2,368,584	2,242,711	-	2,242,711
Supporting services						
Management and general	417,455	-	417,455	199,472	-	199,472
Fundraising	361,362	-	361,362	476,054	-	476,054
Total expenses	3,147,401	-	3,147,401	2,918,237	-	2,918,237
Other income (expenses)						
Paycheck Protection Program loan forgiveness	512,732	-	512,732	512,733	-	512,733
Provider Relief Fund income	-	-	-	260,877	-	260,877
Miscellaneous income	10,268	-	10,268	10,629	-	10,629
Interest expense	-	-	-	(12)	-	(12)
Loss on disposal of equipment	(1,621)	-	(1,621)	(4,858)	-	(4,858)
Total other income (expenses)	521,379	-	521,379	779,369	-	779,369
CHANGE IN NET ASSETS	876,272	816,919	1,693,191	949,852	117,657	1,067,509
NET ASSETS AT BEGINNING OF YEAR	4,273,981	1,695,174	5,969,155	3,324,129	1,577,517	4,901,646
NET ASSETS AT END OF YEAR	\$ 5,150,253	\$ 2,512,093	\$ 7,662,346	\$ 4,273,981	\$ 1,695,174	\$ 5,969,155

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, 2021 AND 2020

	2021				2020			
	Program Services	Supporting Services		Totals	Program Services	Supporting Services		Totals
		Management and General	Fund- raising			Management and General	Fund- raising	
Compensation and related expenses:								
Wages	\$ 1,696,946	\$ 290,376	\$ 240,535	\$ 2,227,857	\$ 1,663,852	\$ 127,988	\$ 341,303	\$ 2,133,143
Payroll taxes	129,300	21,292	19,431	170,023	100,994	7,769	20,717	129,480
Employee benefits	189,532	39,938	20,069	249,539	155,401	11,954	31,877	199,232
Totals	2,015,778	351,606	280,035	2,647,419	1,920,247	147,711	393,897	2,461,855
Professional fees	11,513	16,454	1,769	29,736	-	29,766	-	29,766
Depreciation and amortization	97,732	8,723	26,896	133,351	101,256	7,789	20,770	129,815
Loss (recovery) on bad debts	382	-	-	382	(2,936)	-	-	(2,936)
Bank charges	3,634	1,011	5,569	10,214	6,092	468	1,250	7,810
Travel, meals and entertainment	570	-	1,612	2,182	747	58	153	958
Telephone and internet	22,799	5,341	6,239	34,379	21,562	1,660	4,422	27,644
Endowment fundraising expense	-	-	973	973	-	-	104	104
Postage	578	500	1,544	2,622	1,690	130	347	2,167
Consulting	24,129	7,800	-	31,929	21,905	-	-	21,905
Supplies	41,492	1,805	2,100	45,397	28,334	2,180	5,811	36,325
Repairs and maintenance	24,446	3,629	5,561	33,636	25,507	1,962	5,232	32,701
Family support	-	-	-	-	8,986	-	-	8,986
Insurance	43,222	12,823	4,669	60,714	48,508	3,732	9,950	62,190
Conferences and events	273	301	248	822	-	-	799	799
Website maintenance	-	-	216	216	-	-	-	-
Subscriptions	46,278	574	1,490	48,342	30,996	2,384	6,358	39,738
Marketing	2,824	-	3,145	5,969	-	-	5,253	5,253
Real estate taxes	-	-	-	-	-	2	-	2
Lease expense	10,372	2,253	1,760	14,385	8,643	-	-	8,643
Licenses, registrations and taxes	-	322	240	562	454	35	93	582
Uniforms	2,564	420	383	3,367	2,317	178	475	2,970
Other expense	-	350	-	350	353	29	71	453
Development expenses	-	-	15,152	15,152	-	-	17,366	17,366
Utilities	19,998	3,543	1,761	25,302	18,050	1,388	3,703	23,141
Total functional expenses	<u>\$ 2,368,584</u>	<u>\$ 417,455</u>	<u>\$ 361,362</u>	<u>\$ 3,147,401</u>	<u>\$ 2,242,711</u>	<u>\$ 199,472</u>	<u>\$ 476,054</u>	<u>\$ 2,918,237</u>

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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,693,191	\$ 1,067,509
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	133,351	129,815
Unrealized gain on investments	(90,582)	(69,909)
Realized gain on investments	(81,034)	(76,675)
Loss on disposal of equipment	1,621	4,858
(Increase) decrease in operating assets:		
Accounts receivable, net	(18,075)	74,500
Promises to give, net	27,313	87,668
Prepaid expenses and other	22,910	(18,106)
Increase (decrease) in operating liabilities:		
Accounts payable	8,997	(7,144)
Accrued expenses	(53,318)	90,089
Deferred revenue	(105,033)	115,127
Deferred special event revenue	4,794	(22,180)
Net cash provided by operating activities	<u>1,544,135</u>	<u>1,375,552</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(299,272)	(379,621)
Proceeds from sale of investments	81,034	76,675
Proceeds from sale of equipment	-	1,000
Purchase of property and equipment	<u>(315,727)</u>	<u>(68,917)</u>
Net cash used for investing activities	<u>(533,965)</u>	<u>(370,863)</u>
Net increase in cash and equivalents, and restricted cash and equivalents	1,010,170	1,004,689
Beginning cash and equivalents and restricted cash and equivalents	<u>2,048,321</u>	<u>1,043,632</u>
Ending cash and equivalents and restricted cash and equivalents	<u>\$ 3,058,491</u>	<u>\$ 2,048,321</u>

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, 2021 AND 2020

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 inter-company 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, 2021 AND 2020

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

Cash and Equivalents and Restricted 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, 2021 and 2020 that were permanently restricted by donors for endowment purposes was \$429,274 and \$117,591, respectively. Since these funds are not available for current operations, they are presented as a long-term asset.

Investments, Net

The Organization follows the Not-For-Profit Entities subtopic and Revenue Recognition subtopic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (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. All investments are considered to be available for sales securities.

The Fair Value Measurements and Disclosures topic of *FASB ASC 820* 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. Interest and dividend income are reported as income when received and are included in investment income, net on the consolidated statements of activities.

Accounts Receivable, Net

Accounts receivable consist of services provided to be paid by either the patient 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, 2021 and 2020, management has estimated the allowance for uncollectible accounts receivable to be \$6,292 and \$5,910, 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 both December 31, 2021 and 2020, management has estimated the allowance for doubtful collectability to be \$-0-.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

Property and Equipment, Net

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 are 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, 2021 and 2020 are as follows:

	2021	2020
Conditional	\$ 219,459	\$ 342,665
Unconditional with donor restrictions	\$ 46,485	\$ 32,980
Unconditional without donor restrictions	\$ 96,050	\$ 183,000

The conditional contributions remaining as of December 31, 2021 and 2020 are reflected in the deferred revenue on the consolidated statement of financial position at \$48,164 and \$153,197, respectively.

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, 2021 and 2020 totaled \$20,300 and \$12,439, respectively.

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.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

Revenue Recognition of Patient Fees

The Organization's program revenue is derived from providing family resources, outpatient rehabilitation services and professional nursing services for children with special needs. This revenue stream is considered an exchange transaction under *Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers ("ASU 2014-09")* as the patients are receiving services with commensurate value to the payment they, or their insurance company, are making. The Organization recognizes revenue from patient fees at the point in time when the services are provided (date of service) which is the time that the Organization is considered to meet its performance obligations under the contracts with its patients. The payment from the customer is generally simultaneous with the transfer of the services, thus the provision of these services is not creating a contract asset or liability. The contracts with their patients do not have a significant financing component. The payments are received from the patient's insurance company, if applicable, after the claim has been filed by the Organization on behalf of the patient. Any remaining payment due for the services are then the responsibility of the patient. However, if the patient is unable to pay the remaining balance, it is written off as the Organization's mission is to provide care to their patients regardless of their ability to pay.

There were no contract assets or liabilities related to the Company's contracts with its patients as of December 31, 2021 or 2020 as there were no uncompleted contracts with patients at those dates. Patient fee revenue totaled \$1,726,931 and \$1,219,408 for the years ended December 31, 2021 and 2020, respectively. The receivables from contracts with patients as of December 31, 2021 and 2020 were \$51,984 and \$34,080, respectively.

Revenue Recognition of Special Events

The Organization has special events each year where admission is charged. A portion of the admission generally will be considered a contribution while the portion that is considered payment for a tangible benefit received by the attendee, such as a meal or a round of golf, is considered an exchange transaction under *ASU 2014-09*. Any admission tickets sold in advance of the event would be considered a contract liability until the date of the event, which is the point in time that the Organization meets their performance obligation in relation to the exchange transaction and recognizes the revenue. In the years ended December 31, 2021 and 2020, the portion of the admissions charge considered an exchange transaction totaled \$179,425 and \$201,940, respectively, and the cost of the direct benefit to donors totaled \$65,319 and \$90,937, respectively. These are shown on the consolidated statements of activities as net revenue from fundraising events. Included in these amounts are sales of branded items totaling \$3,971 and \$5,608 for the years ended December 31, 2021 and 2020, respectively. The Organization recognizes revenue for the sale of branded items when the buyer takes possession and makes payment to the Organization. The portion of the admission that is considered a contribution totaled \$114,106 and \$111,003 for the years ended December 31, 2021 and 2020, respectively, and is reflected on the consolidated statements of activities as special events contributions.

The Organization organizes an annual Special Kids Race as a fundraiser. Runners in the race will submit their registration fee for the Special Kids Race before the day of the race. The amounts that are received in the year preceding the race are considered a contract liability and are included in deferred event revenue on the consolidated statements of financial position. As of December 31, 2021 and 2020, the Organization had received \$4,955 and \$315, respectively, for the race in the subsequent year. As of December 31, 2021 and 2020, the Organization had also received sponsorships for the annual golf event to be held in the following year totaling \$154 and \$-0-, respectively. This is also included in deferred event revenue on the consolidated statements of financial position.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

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. Certain expenses are specifically allocated to the functional category benefited. Other costs have been allocated among the program services, management and general and fundraising functions based on the employees' estimate of time and effort in the various functional categories or estimates of usage of building space.

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 2018, and to state tax authorities for years before 2016.

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, 2021 and 2020.

Marketing Expense

The Organization expenses the cost of non-direct responsive advertising as incurred. For the years ended December 31, 2021 and 2020, marketing expenses totaled \$5,969 and \$5,253, respectively.

Reclassifications

Certain development expenses for the year ended December 31, 2020 have been reclassified to the statement of functional expenses instead of being netted with special event income to conform to the presentation of the amounts for the year ended December 31, 2021.

NOTE B – INVESTMENTS, NET

Investments are stated at fair value and are summarized as follows as of December 31, 2021 and 2020:

	2021		2020	
	Cost	Value	Cost	Value
Equity securities	\$ 41,118	\$ 46,959	\$ 40,410	\$ 42,428
Endowment	1,944,942	2,184,073	1,646,378	1,798,750
Total investments	\$ 1,986,060	\$ 2,231,032	\$ 1,686,788	\$ 1,841,178

For donated investments, cost is determined to be the fair value at the date of gift. During both of the years ended December 31, 2021 and 2020, the Organization received \$-0- in donated investments. As of December 31, 2021 and 2020, the unrealized gain on investments totaled \$244,972 and \$154,390, respectively. During the years ended December 31, 2021 and 2020, the change in the unrealized gain on investments totaled \$90,582 and \$69,909, respectively. Investment income net of expenses for the years ended December 31, 2021 and 2020 totaled \$36,597 and \$32,643, respectively. 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.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE B – INVESTMENTS, NET (CONTINUED)

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
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NOTE B – INVESTMENTS, NET (CONTINUED)

As of December 31, 2021 and 2020 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, 2021 and 2020 and the balance as of December 31, 2021 and 2020 are as follows:

	<u>Board Designated for Endowment</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Balance as of December 31, 2019	\$ 36,030	\$ 1,415,432	\$ 1,451,462
Contributions	<u>6,410</u>	<u>134,633</u>	<u>141,043</u>
Balance as of December 31, 2020	42,440	1,550,065	1,592,505
Contributions	<u>24,409</u>	<u>445,673</u>	<u>470,082</u>
Balance as of December 31, 2021	<u>\$ 66,849</u>	<u>\$ 1,995,738</u>	<u>\$ 2,062,587</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, 2021 and 2020, 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, 2021 AND 2020

NOTE B – INVESTMENTS, NET (CONTINUED)

Fair value measurements as of December 31, 2021 and 2020 are determined as follows:

	Fair Value Measurements at December 31, 2021			
	Quoted	Significant	Significant	Totals
	prices in active	other	unobservable	
	markets for	observable	inputs	
identical assets	inputs	inputs		
	(level 1)	(level 2)	(level 3)	
Equity securities	\$ 46,959	\$ -	\$ -	\$ 46,959
Endowment	-	-	2,184,074	2,184,074
Totals	\$ 46,959	\$ -	\$ 2,184,074	\$ 2,231,033

	Fair Value Measurements at December 31, 2020			
	Quoted	Significant	Significant	Totals
	prices in active	other	unobservable	
	markets for	observable	inputs	
identical assets	inputs	inputs		
	(level 1)	(level 2)	(level 3)	
Equity securities	\$ 42,428	\$ -	\$ -	\$ 42,428
Endowment	-	-	1,798,750	1,798,750
Totals	\$ 42,428	\$ -	\$ 1,798,750	\$ 1,841,178

All Level 3 investments are included in the agency endowment held by The Community Foundation. The assets transferred to the endowment are invested by The Community Foundation in investments that are in line with the Organization's endowment policy.

The Level 3 investments are reported at fair value on a recurring basis determined by reference to quoted market prices for similar assets. The purchases of the Organization's Level 3 investments for the years ended December 31, 2021 and 2020 totaled \$298,563 and \$406,371, respectively. There were no amounts issued out of the Level 3 investments during the years ended December 31, 2021 and 2020. There were no other transfers in or out of Level 3 investments.

NOTE C – ACCOUNTS RECEIVABLE, NET

Accounts receivable, net is composed of the following as of December 31, 2021 and 2020:

	2021	2020
Accounts receivable	\$ 58,276	\$ 46,541
Allowance for contractual adjustments	-	(6,551)
Allowance for uncollectible accounts receivable	(6,292)	(5,910)
Other receivables	3,923	3,752
Total accounts receivable, net	\$ 55,907	\$ 37,832

SPECIAL KIDS, INC.
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NOTE D – PROMISES TO GIVE, NET

As of December 31, 2021 and 2020, unconditional promises to give, net, are due as follows:

	2021	2020
Due within 1 year	\$ 12,785	\$ 40,098
Due within 1 to 5 years	-	-
Total	12,785	40,098
Present value discount	-	-
Allowance for doubtful pledges	-	-
Allowance for uncollectible promises to give	-	-
Promises to give, net	12,785	40,098
Current portion of promises to give, net	12,785	40,098
Promises to give, net of current portion	\$ -	\$ -

NOTE E – ASSETS RESTRICTED FOR DONOR ENDOWMENT

The assets restricted for donor endowment as of December 31, 2021 and 2020 consist of the following:

	2021	2020
Restricted cash and equivalents	\$ 429,274	\$ 117,591
Investments	2,184,073	1,798,750
Total assets restricted for donor endowment	\$ 2,613,347	\$ 1,916,341

NOTE F – PROPERTY AND EQUIPMENT, NET

Property and equipment, net is composed of the following as of December 31, 2021 and 2020:

	2021	2020
Land	\$ 358,340	\$ 358,340
Building and improvements	2,509,070	2,220,437
Construction in progress	-	7,899
Furniture and equipment	384,010	394,839
Leasehold improvements	185,770	183,091
Software	124,370	184,377
Totals	3,561,560	3,348,983
Less: Accumulated depreciation and amortization	(1,024,697)	(992,875)
Total property and equipment, net	\$ 2,536,863	\$ 2,356,108

For the years ended December 31, 2021 and 2020, depreciation and amortization totaled \$133,351 and \$129,815, respectively.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE G – ACCRUED EXPENSES

Accrued expenses are composed of the following as of December 31, 2021 and 2020:

	2021	2020
Accrued payroll	\$ 82,692	\$ 71,344
Payroll related liabilities	1,072	4,140
Accrued paid time off	99,820	107,586
Accrued employee bonuses	-	25,755
Sales tax payable	(10)	14
Other accruals	1,822	-
Patient insurance overpayment	-	29,875
Total accrued expenses	\$ 185,396	\$ 238,714

NOTE H – 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.

The following reflects the Organization’s financial assets as of December 31, 2021, 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	\$ 2,629,217
Cash restricted for donor endowment	429,274
Investments	46,959
Accounts receivable, net	55,907
Promises to give, net	12,785
Total financial assets as of year-end	3,174,142
Less those unavailable for general expenditures within one year due to:	
Contractual or donor-imposed restrictions:	
Subject to appropriation and satisfaction of donor restrictions	516,356
Donor endowment	429,274
Board designations:	
Endowment	66,849
HALO fund	34,217
Buildings	100,000
Total unavailable for general expenditures within one year	1,146,696
Total financial assets available for general expenditures within one year	\$ 2,027,446

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE I – BOARD DESIGNATIONS OF NET ASSETS WITHOUT RESTRICTIONS

The Organization’s Board of Directors has designated, from net assets without donor restrictions of \$5,150,530 and \$4,273,981, net assets for the following purposes as of December 31, 2021 and 2020:

	2021	2020
Designated net assets:		
Building fund	\$ -	\$ 29,813
HALO Fund	34,217	34,217
Endowment fund	66,849	42,440
Cash reserves	100,000	100,000
Total designated net assets	201,066	206,470
Undesignated net assets	4,949,464	4,067,511
Total net assets without donor restrictions	\$ 5,150,530	\$ 4,273,981

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.

NOTE J – 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, 2021 and 2020 support received with temporary donor restrictions totaled \$507,622 and \$10,437, respectively.

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

	2021	2020
Facilities construction and renovation	\$ 132,048	\$ 2,893
Equipment and software	-	73
Director development	2,400	3,050
Tiny Diners	1,277	2,151
Other projects	650	300
HALO Fund	-	160
Macedonia Fund	-	18,786
Total net assets released from restrictions	\$ 136,375	\$ 27,413

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE J – NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

The net assets with temporary donor restrictions as of December 31, 2021 and 2020 are subject to expenditures for the following purposes:

	2021	2020
Facilities construction and renovation	\$ -	\$ 31,048
Parking lot	-	101,000
Nursing	329	978
Tiny Diners	1,942	1,277
Director development	-	2,400
Raintree analytical tool	1,050	-
Dishwasher	558	-
Staff appreciation	10	-
Organizational supplies	168	-
Future expansion	500,000	-
Therapy chair	793	-
Washer and dryer	2,500	-
HALO Fund	9,006	8,406
Total net assets with temporary donor restrictions	\$ 516,356	\$ 145,109

Net assets that are permanently restricted by the donors for endowment purposes totaled \$1,995,737 and \$1,550,065 as of December 31, 2021 and 2020, respectively. Income permanently restricted by donors for endowment purposes totaled \$445,672 and \$134,633 for the years ended December 31, 2021 and 2020, respectively.

NOTE K – LINE OF CREDIT

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 and maturing in December 2028. The line of credit is payable on demand. As of both December 31, 2021 and 2020, the balance on the line of credit totaled \$-0-.

NOTE L – PAYCHECK PROTECTION PROGRAM

On January 23, 2021, the Organization was granted a second loan from a bank in the amount of \$512,732 pursuant to the Paycheck Protection Program (the “PPP”) under the Consolidated Appropriations Act which was enacted December 27, 2020. The PPP provides loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business.

On October 18, 2021, the SBA issued a full forgiveness of the loan granted through the Consolidated Appropriations Act in the amount of \$512,732, which was then recognized as other income in the consolidated statements of activities. This forgiveness was based on the Organization’s use of the funds for qualifying payroll expenses as described in the Consolidated Appropriations Act.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE M – OPERATING LEASE

The Organization leases certain office equipment for their facility in Murfreesboro, Tennessee under operating lease agreements with terms ranging from 36 to 60 months, requiring monthly payments ranging from \$160 to \$518 and with maturities through January 2025.

The future minimum obligations under operating leases are as follows as of:

<u>December 31,</u>	
2022	\$ 14,076
2023	13,040
2024	4,164
2025	<u>173</u>
Total	<u>\$ 31,453</u>

Lease expense for the year ended December 31, 2021 and 2020 totaled \$14,385 and \$8,643, respectively.

NOTE N - CONCENTRATION OF RISK

The Organization is highly dependent on insurance company reimbursements 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. If the economic conditions in the middle Tennessee area were to deteriorate there is the risk that donors would reduce their charitable giving, and the Organization could 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 which is \$250,000 for substantially all depository accounts. As of December 31, 2021 and 2020, the Organization had funds in excess of the FDIC limits of \$1,321,660 and \$1,086,369, respectively.

NOTE O - RELATED PARTY TRANSACTIONS

The Organization provided various patient services for the children of directors and employees throughout the years ended December 31, 2021 and 2020. Services provided for the children of directors and employees during the years ended December 31, 2021 and 2020 totaled \$5,060 and \$1,786, respectively. Accounts receivable, net at both December 31, 2021 and 2020 due from directors’ and employees totals \$-0-.

Services provided to the Organization by board members for the years ended December 31, 2021 and 2020 totaled \$561 and \$4,513, respectively.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE P – CASH FLOW INFORMATION

During the years ended December 31, 2021 and 2020, net cash provided by operating activities included cash payments of interest totaling \$-0- and \$12, respectively. There were no cash payments for income taxes during both years ended December 31, 2021 and 2020.

In-kind contributions received during the years ended December 31, 2021 and 2020 totaled \$43,034 and \$40,083. Of those contributions, \$41,125 and \$39,083 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and equivalents	\$ 2,629,217	\$ 1,930,730
Cash restricted for donor endowment	<u>429,274</u>	<u>117,591</u>
Total cash and equivalents and cash restricted for donor endowment	<u>\$ 3,058,491</u>	<u>\$ 2,048,321</u>

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

NOTE Q - SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 15, 2022 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.