Special Kids, Inc.

Financial Statements

December 31, 2004 and 2003

With Independent Accountant's Report Thereon

H A Beasley & Company

Certified Public Accountants

Murfreesboro, Tennessee

Member:
American Institute of CPAs
Tennessee Society of CPAs
Institute of Management Accountants

HAB

H A BEASLEY & COMPANY
Certified Public Accountants

237 W. Northfield Blvd
[illegible] Bldg., Suite [illegible]
Murfreesboro, TN [illegible]
Phone: (615) [illegible]
Fax: (615) [illegible]
E-Mail: [illegible]
www.HABeasley.com

INDEPENDENT ACCOUNTANT'S REPORT

Board of Directors
Special Kids, Inc.

We have audited the accompanying statement of financial position of Special Kids, Inc. (a non-profit corporation) as of December 31, 2004 and 2003 and the related statements of activities and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of Special Kids, Inc. management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Special Kids, Inc. as of December 31, 2004 and 2003, and the results of operations and its cash flows for the periods then ended in conformity with generally accepted accounting principles of the United States of America.

Murfreesboro, TN
June 21, 2005

SPECIAL KIDS, INC.
STATEMENTS OF FINANCIAL POSITION
As of December 31, 2004 and 2003

	2004	2003
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 326,033	$ 82,364
Investments (Note D)	1,500	-
Accounts Receivable	76,838	117,824
Total Current Assets	404,371	200,188
Land, Buildings and Equipment, net (Note E)	279,628	272,425
TOTAL ASSETS	$ 683,999	$ 472,613
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 14,075	$ 1,359
Line of Credit Payable (Note H)	-	19,708
Total Current Liabilities	14,075	21,067
NET ASSETS		
Unrestricted Net Assets (Note G)	669,924	451,546
TOTAL LIABILITIES & NET ASSETS	$ 683,999	$ 472,613

See accompanying notes and independent accountant's report.

SPECIAL KIDS, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended December 31, 2004 and 2003

	2004	2003
REVENUES, GAINS & RECLASSIFICATIONS:		
Patient Fees	$ 740,163	$ 665,669
Private Gifts & Grants	219,730	171,091
Fundraising	43,702 - 184,781	152,587
Dividend and Interest Income	1,067	97
Recovery of Unrealized Losses	-	6,010
Realized Gain	-	15,535
Total Revenue, Gains & Reclassifications	1,145,741	1,010,989
EXPENSES & LOSSES:		
Program Services:		
Rehabilitation	531,616	516,220
Nursing	266,118	244,230
Administration	93,474	96,387
Fundraising	36,155	29,673
Total Expenses	927,363	886,510
	933,681-990	
Change in Net Assets	218,378	124,479
Net Assets at Beginning of Year	451,546	327,068
NET ASSETS AT END OF YEAR	$ 669,924	$ 451,546

See accompanying notes and independent accountant's report.

SPECIAL KIDS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2004 and 2003

	2004	2003
OPERATING ACTIVITIES		
Change in Net Assets	$ 218,378	$ 124,479
Adjustments to Reconcile to Cash From Operations:		
Depreciation	17,704	15,976
Amortization	1,322	729
Non-cash donations	(1,500)	-
(Increase)/Decrease in Accounts Receivable	40,986	(56,519)
Recovery of Unrealized Losses	-	(6,010)
Gain on Investments	-	(15,535)
Increase/(Decrease) in Accounts Payable and Accrued Expenses	12,716	(5,930)
Net Cash Provided/(Used) by Operations	289,606	57,190
INVESTING ACTIVITIES		
Proceeds from Sales of Investments	-	57,849
Purchase of Investments	-	-
Acquisition of Equipment	(26,229)	(2,592)
Net Cash (Used) in Investing Activities	(26,229)	55,257
FINANCING ACTIVITIES		
Short-term Borrowings	-	110,110
Reduction of Short-term Debt	(19,708)	(140,340)
Net Cash Provided/(Used) in Financing Activities	(19,708)	(30,230)
Net Increase/(Decrease) in Cash	243,669	82,217
Beginning Cash and Cash Equivalents	82,364	147
Ending Cash and Cash Equivalents	$ 326,033	$ 82,364

See accompanying notes and independent accountant's report.

SPECIAL KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 and 2003

NOTE A--NATURE OF ACTIVITIES

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

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accrual Basis

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

Basis of Presentation

The organization has adopted the Statement of Financial Accounting Standard (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS 117, net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

-Unrestricted net assets- Net assets that are not subject to donor-imposed stipulations.

-Temporarily restricted net assets- Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the organization pursuant to those stipulations or that expire by the passage of time.

-Permanently restricted net assets- Net assets subject to donor-imposed stipulations that they be maintained permanently by the organization. Generally, the donors of such assets permit the organization to use all or part of the income earned on the assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassification between the applicable classes of net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits and certificates of deposit except investments purchased with endowment assets or deposits with trustees that are classified as long-term investments.

Compensated Absences

Employees of the organization are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service and other factors. It is impractical to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The organization's policy to recognize the cost of compensated absences when actually paid to its employees would not materially change the financial statements if an estimate were accrued.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets (5 to 40 years). Expenditures for equipment costing over $250 are capitalized.

Contributions of long-lived assets or contributions restricted for acquisition of long-lived assets are reported as increases in temporarily restricted net assets. When restrictions are considered met, an appropriate amount is reclassified to unrestricted net assets. The useful lives of the long-lived assets are calculated based on the organization's depreciation policy.

Contributions

The Organization accounts for contributions in accordance with the recommendation of the FASB in SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization or discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contribution receivables is provided based upon management's judgement, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Restricted contributions whose restrictions are met or accrued in the period the contributions are received are reported as unrestricted contributions.

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.

SPECIAL KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 and 2003

NOTE C—CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2004 include $210,903 held in a checking account at First Bank in Lexington, Tennessee. A significant credit risk exists at December 31, 2004 because of the cash held at First Bank which exceeds federally insured limits. The maximum amount of loss due to credit risk at December 31, 2004 for the First Bank account would be $110,903 if the bank failed to perform according to the deposit agreement. Cash and cash equivalents also include $114,980 on deposit with Northwestern Mutual Investment Services and $150 in petty cash. At December 31, 2004, $114,000 invested with Northwestern Mutual Investment Services is held in taxable bonds with a current yield of 2.10% and $980 is held in money market funds with a current yield of 1.13%.

NOTE D--INVESTMENTS

All securities were sold in 2003. The sales proceeds were placed in a money market fund and included with cash on the Balance Sheet at December 31, 2003. Investments as of December 31, 2004 includes a diamond given by a donor that is being held for sale.

The following schedule summarizes the investment returns and classifications in the statements of activities for the years ended December 31, 2004, December 31, 2003 and December 31, 2002:

	2004	2003	2002	Net
Dividends	$ 0	$ 0	$ 91	$ 91
Unrealized Losses	0	0	(122)	(122)
Recovery of Unrealized Losses	0	6,010	0	6,010
Realized Gains	0	15,535	1219	16,754
Total investment return	$ 0	$ 21,545	$ 1,188	$ 22,733

NOTE E--LAND BUILDINGS AND EQUIPMENT

Land, buildings and equipment are composed of the following:

	2004	2003
Land	$ 35,404	$ 35,404
Buildings and improvements	253,225	253,225
Furniture and equipment	59,158	56,573
Grant equipment	13,194	0
Grant software	10,450	0
Software	4,645	4,645
	376,076	349,847
Less accumulated depreciation and amortization	(96,448)	(77,422)
Total	$279,628	$272,425

SPECIAL KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 and 2003

NOTE F--PROGRAM SERVICE AND FUNDRAISING EXPENSES

During the current fiscal year, volunteers have performed a significant number of hours of service in accomplishing the organization's purposes. These hours were donated and if they were recorded in the records based on a reasonable hourly wage would result in a dramatic increase in private donations as well as a multi-fold increase in program service expenses. The organization did not incur any significant third-party fundraising expenses during the fiscal year.

NOTE G--RESTRICTIONS ON NET ASSETS

In accordance with the organization's policy, all net assets are classified as unrestricted at December 31, 2004 and 2003. On November 30, 2004 the Finance Committee of the board of Directors designated $114,973 of unrestricted net assets for the building fund. The cash and cash equivalents designated for the building fund are invested with Northwestern Mutual Investment Services.

NOTE H--LINE OF CREDIT

In 2003, the organization set up a $150,000 line of credit with Farmers Bank at a rate of prime plus 1% and an original maturity date of August 27, 2004. The organization's management renewed the line of credit for another year. The organization's land and building were pledged as collateral for the line of credit. At December 31, 2004, $ 0 was due on the line of credit.

NOTE I--CONCENTRATION OF RISK

The organization is highly dependent on insurance company reimbursement of fees for rehabilitation and nursing services and on charitable contributions. If the insurance funding for rehabilitation and nursing services decreased extensively, the organization would experience serious difficulty in continuing operations. Also, because the organization is a TennCare provider there is a risk related to continuance of the TennCare program and any state or federal program that may replace the TennCare program. The dollar impact of this risk has not been quantified. 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.

Charitable contributions are solicited across the middle Tennessee regions using a variety of methods. While the organization enjoys a broad base of donors, a decrease in contributions would present an economic challenge for the organization.