

Special Kids, Inc.

Financial Statements

With Independent Auditor's Report Thereon

For the Years Ended December 31, 2011 and 2010

H A Beasley & Company, PC

Certified Public Accountants

Murfreesboro, Tennessee



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Special Kids, Inc.
Murfreesboro, Tennessee

We have audited the accompanying statements of financial position of Special Kids, Inc. (a nonprofit corporation) as of December 31, 2011 and 2012, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Special Kids, Inc. as of December 31, 2011 and 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



H A Beasley & Company, PC
June 21, 2012

A Positive Difference Through Professional Accounting Service

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SPECIAL KIDS, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Current Assets		
Cash & Cash Equivalents	\$ 217,109	\$ 80,565
Investments	4,903	-
Accounts Receivable (See Note C & I)	74,429	101,873
Prepaid Expenses	<u>35,373</u>	<u>32,667</u>
Total Current Assets	331,814	215,105
Land, Buildings & Equipment, net (See Note D)	<u>457,992</u>	<u>482,533</u>
TOTAL ASSETS	<u><u>789,806</u></u>	<u><u>697,638</u></u>
 <u>LIABILITIES</u>		
Accounts Payable & Accrued Expenses (See Note I)	<u>162,780</u>	<u>133,092</u>
Total Current Liabilities	162,780	133,092
 <u>NET ASSETS</u>		
Unrestricted Net Assets (See Note H)	<u>627,026</u>	<u>564,546</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>\$ 789,806</u></u>	<u><u>\$ 697,638</u></u>

See accompanying notes and independent auditor's report.

SPECIAL KIDS, INC.
STATEMENTS OF ACTIVITIES AND
CHANGE IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>REVENUES, GAINS & RECLASSIFICATIONS:</u>		
Patient Fees:		
Bureau of TennCare	\$ 529,236	\$ 578,074
Private Insurance	348,892	297,601
Private Pay	127,853	96,192
Private Gifts & Grants	372,371	325,723
Events & Activities	234,020	234,603
Dividend & Interest Income	522	598
	<u>1,612,894</u>	<u>1,532,791</u>
<u>EXPENSES & LOSSES:</u>		
Program Services:		
Rehabilitation	651,296	685,574
Nursing	480,445	523,288
Administration	174,863	173,882
Fundraising	243,810	280,709
	<u>1,550,414</u>	<u>1,663,453</u>
Change in Net Assets	62,480	(130,662)
Net Assets at Beginning of Year	<u>564,546</u>	<u>695,208</u>
NET ASSETS AT END OF YEAR	<u>\$ 627,026</u>	<u>\$ 564,546</u>

See accompanying notes and independent auditor's report.

SPECIAL KIDS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ 62,480	\$ (130,662)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation (Note D)	21,264	22,742
Amortization (Note D)	7,117	7,316
(Gain) Loss on Disposal of Fixed Assets	1,385	-
(Increase) Decrease in Investments	(4,903)	-
(Increase) Decrease in Accounts Receivable	27,444	(1,225)
(Increase) Decrease in Prepaid Expenses	(2,706)	4,085
Increase (Decrease) in Accounts Payable & Accrued Expenses	29,688	(2,408)
	<u>141,769</u>	<u>(100,152)</u>
Net Cash Provided (Used) by Operating Activities		
<u>CASH FLOWS USED FOR INVESTING ACTIVITIES</u>		
Purchase of Equipment	<u>(5,225)</u>	<u>(24,858)</u>
Net Cash (Used) in Investing Activities	<u>(5,225)</u>	<u>(24,858)</u>
Net Increase (Decrease) in Cash	136,544	(125,010)
Beginning Cash & Cash Equivalents	<u>80,565</u>	<u>205,575</u>
Ending Cash & Cash Equivalents	<u>\$ 217,109</u>	<u>\$ 80,565</u>
Supplemental Disclosure:		
Interest paid	<u>\$ 1,110</u>	<u>\$ 1,413</u>

See accompanying notes and independent auditor's report.

SPECIAL KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Services		Supporting Services		Total
	Rehab- ilitation	Nursing	Management & General	Fund- raising	
Compensation and Related Expenses:					
Wages	\$ 507,408	\$ 367,263	\$ 123,679	\$ 169,213	\$ 1,167,563
Payroll Taxes	43,817	32,637	9,631	14,843	100,928
Employee Benefits	14,708	12,841	20,044	-	47,593
	<u>565,933</u>	<u>412,741</u>	<u>153,354</u>	<u>184,056</u>	<u>1,316,084</u>
Contract Labor	-	-	-	-	-
Accounting	4,923	3,116	1,439	972	10,450
Depreciation	9,505	8,080	1,701	1,978	21,264
Amortization	3,844	2,704	569	-	7,117
Bank Charges	1,687	1,743	558	-	3,988
Travel, Meals & Entertainment	895	1,066	947	-	2,908
Telephone & Internet	6,215	6,031	3,604	1,625	17,475
Postage	2,088	1,681	527	441	4,737
Consulting	1,058	529	212	-	1,799
Supplies	16,446	13,987	1,835	3,309	35,577
Interest Expense	368	361	381	-	1,110
Repairs & Maintenance	6,436	4,226	1,572	1,254	13,488
Family Support	2,381	-	-	-	2,381
Insurance	7,490	7,938	3,061	1,896	20,385
Banquets & Marathons	-	-	-	47,009	47,009
Conferences & Events	6,570	6,296	961	-	13,827
Subscriptions	7,308	5,929	2,528	-	15,765
Utilities	6,765	4,017	1,614	1,271	13,667
Other	1,383	-	-	-	1,383
	<u>\$ 651,296</u>	<u>\$ 480,445</u>	<u>\$ 174,863</u>	<u>\$ 243,810</u>	<u>\$ 1,550,414</u>

See accompanying notes and independent auditor's report.

SPECIAL KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Program Services		Supporting Services		Total
	Rehab- ilitation	Nursing	Management & General	Fund- raising	
Compensation and Related Expenses:					
Wages	\$ 506,867	\$ 410,461	\$ 123,372	\$ 175,500	\$ 1,216,200
Payroll Taxes	46,738	32,129	9,456	15,350	103,673
Employee Benefits	25,370	7,363	19,360	-	52,093
	<u>578,975</u>	<u>449,953</u>	<u>152,188</u>	<u>190,850</u>	<u>1,371,966</u>
Contract Labor	261	242	147	-	650
Accounting	4,830	3,990	840	990	10,650
Depreciation	10,166	8,642	1,819	2,115	22,742
Amortization	3,951	2,780	585	-	7,316
Bank Charges	2,316	-	1,174	-	3,490
Travel, Meals & Entertainment	854	1,980	424	-	3,258
Telephone & Internet	6,596	8,346	1,963	1,733	18,638
Postage	780	576	136	153	1,645
Consulting	1,346	983	196	-	2,525
Supplies	7,562	19,563	836	2,867	30,828
Interest Expense	398	298	717	-	1,413
Repairs & Maintenance	6,263	5,249	1,255	1,309	14,076
Family Support	-	-	6,855	-	6,855
Insurance	9,907	9,355	2,134	2,194	23,590
Banquets & Marathons	-	-	-	77,177	77,177
Conferences & Events	35,178	-	186	-	35,364
Subscriptions	5,283	5,963	1,655	-	12,901
Utilities	7,070	5,368	438	1,320	14,196
Other	3,839	-	334	-	4,173
	<u>\$ 685,574</u>	<u>\$ 523,288</u>	<u>\$ 173,882</u>	<u>\$ 280,709</u>	<u>\$ 1,663,453</u>

See accompanying notes and independent auditor's report.

SPECIAL KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010

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 classifies net assets, revenues, gains and losses 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.

SPECIAL KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010

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. The Organization awards paid time off annually on January 1 and all paid time off must be used by the end of the year or it will be lost. No paid time off is carried over from year to year, therefore there is no accrual of paid time off.

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

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. With few exceptions, the organization is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2008, and to state tax authorities for years before 2006.

SPECIAL KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010

NOTE C -- ACCOUNTS RECEIVABLE

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with clients having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

NOTE D -- LAND BUILDINGS AND EQUIPMENT

Land, buildings and equipment are composed of the following:

	<u>2011</u>	<u>2010</u>
Land	\$119,404	\$119,404
Buildings and improvements	402,512	402,512
Furniture and equipment	39,153	50,750
Grant equipment	54,776	61,964
Grant software	6,676	6,676
Software	<u>28,200</u>	<u>29,050</u>
	650,721	670,356
Less accumulated depreciation and amortization	<u>(192,729)</u>	<u>(187,823)</u>
Total	<u>\$457,992</u>	<u>\$482,533</u>

Depreciation expense for 2011 and 2010 is \$21,264 and \$22,742 respectively. Amortization expense for 2011 and 2010 is \$7,117 and \$7,316 respectively. All land, buildings and improvements are held by Special Kids Real Estate, LLC (See Note E).

NOTE E -- CONSOLIDATED FINANCIAL STATEMENTS

On July 15, 2009, the Organization created Special Kids Real Estate, LLC, a single-member LLC (a limited liability company), to hold all land, buildings and improvements owned, purchased or donated to Special Kids, Inc. The Organization is the sole member of Special Kids Real Estate, LLC therefore all assets, liabilities, net assets, and income and expenses associated with Special Kids Real Estate, LLC are consolidated under the Organization's financial statements and tax returns.

On November 5, 2009, Special Kids, Inc. sold the properties located at 2132 East Main Street, Murfreesboro, Tennessee 37130 and 202 Arnette Street, Murfreesboro, Tennessee 37130 to Special Kids Real Estate, LLC for \$20.

SPECIAL KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010

NOTE F -- CONTRIBUTED SERVICES

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.

NOTE G -- FUNDRAISING EXPENSES

The organization did not incur any significant third-party fundraising expenses during the fiscal year. Some expenses incurred were joint expense between several different functions. The joint expenses have been appropriately allocated to the different functions based upon management's judgment.

NOTE H -- RESTRICTIONS ON NET ASSETS

All net assets are unrestricted at December 31, 2011 and 2010. On November 30, 2004 the Finance Committee of the board of Directors designated \$114,973 of unrestricted net assets for the building fund.

NOTE I -- RELATED PARTY TRANSACTIONS

Related Party Accounts Receivable

Special Kids, Inc. provided various patient services for the children of directors and employees throughout the years ended December 31, 2011 and 2010. Services provided for the children of directors and employees during the year ended December 31, 2011 totaled \$2,100 and \$40,234 respectively. Services provided for the children of directors and employees during the year ended December 31, 2010 totaled \$1,494 and \$3,592 respectively. Accounts receivable at December 31, 2011 includes \$180 and \$2,351 due from directors' and employees' insurance companies, respectively, and are expected to be paid by insurance reimbursement. Accounts receivable at December 31, 2010 includes \$530 and \$474 due from directors' and employees' insurance companies, respectively, and are expected to be paid by insurance reimbursement.

Related Party Vendors

Special Kids, Inc. purchases various products and services from directors or the companies that employ directors. Special Kids, Inc. conducted business throughout the year with directors which totaled \$3,356 and \$2,952 during 2011 and 2010 respectively.

NOTE J -- SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 12, 2012, which is the financial statement issuance date.

SPECIAL KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010

NOTE K -- 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. 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.