

***Special Kids, Inc.***

(A Nonprofit Corporation)

**Consolidated Financial Statements**

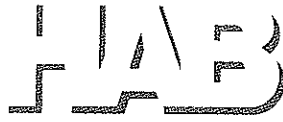
**With Independent Auditors' Report Thereon**

For the Years Ended December 31, 2017 and 2016

**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, 2017 and 2016, 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, 2017 and 2016, 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.

A handwritten signature in cursive script that reads "H A Beasley &amp; Company, PLLC".

H A Beasley & Company, PLLC

May 29, 2018

*A Positive Difference Through Professional Accounting Service*

Murfreesboro Office: P.O. Box 11669 • 111 MTCS Drive • Murfreesboro, TN 37129 • (615) 895-5675

Shelbyville Office: P.O. Box 1044 • 306 Bethany Lane • Shelbyville, TN 37162 • (931) 680-0660

www.HABeasley.com

**SPECIAL KIDS, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**

ASSETS

	2017	2016
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 595,206	\$ 596,154
Investments	43,137	28,166
Accounts receivable, net	147,898	110,556
Promises to give, net	25,120	18,781
Prepaid expenses and other	31,512	42,817
Total current assets	842,873	796,474
 PROPERTY AND EQUIPMENT, NET	 2,491,180	 2,590,301
 <b>OTHER ASSETS</b>		
Promises to give, net of current portion	8,010	-
Investments held for donor endowment	347,820	15,134
Cash restricted for donor endowment	209,858	15,780
Total other assets	565,688	30,914
<b>TOTAL ASSETS</b>	<b>\$ 3,899,741</b>	<b>\$ 3,417,689</b>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Note payable	\$ 117,851	\$ 126,014
Accounts payable	23,404	21,078
Accrued expenses	132,349	138,191
Security deposits	-	250
Deferred revenue	1,290	23,881
Total current liabilities	274,894	309,414
 <b>NET ASSETS</b>		
Unrestricted net assets	2,776,514	2,722,617
Temporarily restricted net assets	312,847	367,878
Permanently restricted net assets	535,486	17,780
Total net assets	3,624,847	3,108,275
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,899,741</b>	<b>\$ 3,417,689</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, 2017 AND 2016**

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenue and Support								
Patient fees:								
Bureau of TemCare	\$ 895,959	\$ -	\$ -	\$ 895,959	\$ 856,215	\$ -	\$ -	\$ 856,215
Private insurance	1,220,931	-	-	1,220,931	1,010,368	-	-	1,010,368
Private pay	305,236	-	-	305,236	300,275	-	-	300,275
Total patient fees	2,422,126	-	-	2,422,126	2,166,858	-	-	2,166,858
Other revenue and support								
Private gifts and grants	584,220	122,643	517,706	1,224,569	409,771	141,864	7,300	558,935
In-kind donations, net of expenses	12,500	-	-	12,500	-	-	10,480	10,480
Special events and activities, net	408,652	-	-	408,652	386,355	-	-	386,355
Unrealized gain (loss) on investments	16,643	-	-	16,643	(1,995)	-	-	(1,995)
Realized gain on investments	12,408	-	-	12,408	-	-	-	-
Rent income	2,700	-	-	2,700	10,800	-	-	10,800
Investment income	4,996	-	-	4,996	1,038	-	-	1,038
Total revenue and support	3,464,245	122,643	517,706	4,104,594	2,972,827	141,864	17,780	3,132,471
Net assets released from restrictions	177,674	(177,674)	-	-	118,770	(118,770)	-	-
Total revenue and support	3,641,919	(55,031)	517,706	4,104,594	3,091,597	23,094	17,780	3,132,471
Expenses								
Program services	2,764,828	-	-	2,764,828	2,490,810	-	-	2,490,810
Supporting services								
Management and general	248,865	-	-	248,865	221,686	-	-	221,686
Fundraising	571,026	-	-	571,026	511,654	-	-	511,654
Total expenses	3,584,719	-	-	3,584,719	3,224,150	-	-	3,224,150
Other income (expenses)								
Miscellaneous income (expenses)	1,117	-	-	1,117	(4,403)	-	-	(4,403)
Interest expense	(5,575)	-	-	(5,575)	(5,896)	-	-	(5,896)
Gain on disposal of equipment	1,155	-	-	1,155	899	-	-	899
Total other income (expenses)	(3,303)	-	-	(3,303)	(9,400)	-	-	(9,400)
CHANGE IN NET ASSETS	53,897	(55,031)	517,706	516,572	(141,953)	17,780	(101,079)	
NET ASSETS AT BEGINNING OF YEAR	2,722,617	367,878	17,780	3,108,275	2,864,570	344,784	-	3,209,354
NET ASSETS AT END OF YEAR	\$ 2,776,514	\$ 312,847	\$ 535,486	\$ 3,624,847	\$ 2,722,617	\$ 367,878	\$ 17,780	\$ 3,108,275

**SPECIAL KIDS, INC.**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017				2016							
	Supporting Services		Supporting Services		Management and General		Management and General		Fund-raising			
	Program Services	Management and General	Fund-raising	Totals	Program Services	Management and General	Fund-raising	Totals	Program Services	Fund-raising		
Compensation and related expenses:												
Wages	\$ 2,092,009	\$ 160,924	\$ 429,130	\$ 2,682,063	\$ 1,854,639	\$ 142,665	\$ 380,438	\$ 2,377,742	\$ 1,854,639	\$ 142,665	\$ 380,438	\$ 2,377,742
Payroll taxes	148,321	11,409	30,425	190,155	140,284	10,791	28,776	179,851	140,284	10,791	28,776	179,851
Employee benefits	149,613	11,509	30,690	191,812	147,348	11,334	30,226	188,908	147,348	11,334	30,226	188,908
Total	2,389,943	183,842	490,245	3,064,030	2,142,271	164,790	439,440	2,746,501	2,142,271	164,790	439,440	2,746,501
Professional fees	-	37,243	-	37,243	-	29,609	-	29,609	-	29,609	-	29,609
Depreciation and amortization	102,480	7,883	21,022	131,385	103,292	7,946	21,187	132,425	103,292	7,946	21,187	132,425
Loss on bad debts	9,140	-	-	9,140	-	-	-	-	-	-	-	-
Bank charges	7,974	613	1,636	10,223	8,010	616	1,643	10,269	8,010	616	1,643	10,269
Travel, meals and entertainment	6,331	487	1,299	8,117	5,046	388	1,035	6,469	5,046	388	1,035	6,469
Telephone and internet	23,017	1,771	4,721	29,509	16,380	1,260	3,360	21,000	16,380	1,260	3,360	21,000
Postage	1,963	151	403	2,517	3,086	237	634	3,957	3,086	237	634	3,957
Consulting	6,230	-	-	6,230	1,250	-	-	1,250	1,250	-	-	1,250
Supplies	60,571	4,659	12,425	77,655	60,868	4,682	12,486	78,036	60,868	4,682	12,486	78,036
Repairs and maintenance	36,809	2,831	7,551	47,191	32,298	2,484	6,626	41,408	32,298	2,484	6,626	41,408
Family support	18,564	-	-	18,564	22,563	-	-	22,563	22,563	-	-	22,563
Insurance	43,901	3,377	9,005	56,283	38,773	2,983	7,953	49,709	38,773	2,983	7,953	49,709
Conferences and events	-	-	3,629	3,629	-	-	-	-	-	-	-	-
Website maintenance	-	-	1,224	1,224	-	-	-	-	-	-	-	-
Subscriptions	27,107	2,085	5,560	34,752	23,335	1,795	4,787	29,917	23,335	1,795	4,787	29,917
Marketing	-	-	7,530	7,530	-	-	-	-	-	-	-	-
Real estate taxes	-	2,131	-	2,131	-	2,893	-	2,893	-	2,893	-	2,893
Lease expense	7,510	-	-	7,510	7,605	-	-	7,605	7,605	-	-	7,605
Licenses, registrations and taxes	710	55	145	910	711	55	145	911	711	55	145	911
Uniforms	4,433	341	909	5,683	5,251	404	1,077	6,732	5,251	404	1,077	6,732
Other expense	211	16	44	271	499	38	103	640	499	38	103	640
Utilities	17,934	1,380	3,678	22,992	19,572	1,506	4,014	25,092	19,572	1,506	4,014	25,092
Total functional expenses	\$ 2,764,828	\$ 248,865	\$ 571,026	\$ 3,584,719	\$ 2,490,810	\$ 221,686	\$ 511,654	\$ 3,224,150	\$ 2,490,810	\$ 221,686	\$ 511,654	\$ 3,224,150

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, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 516,572	\$ (101,079)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	131,385	132,425
Unrealized (gain) loss on investments	(16,643)	1,995
Realized gain on investments	(12,408)	-
Non-cash donation of investments	(10,261)	(10,430)
Gain on disposal of equipment	(1,155)	(899)
(Increase) decrease in operating assets:		
Accounts receivable, net	(37,342)	(16,938)
Promises to give, net	(14,349)	22,296
Prepaid expenses and other	11,305	5,073
Increase (decrease) in operating liabilities:		
Accounts payable	2,326	(16,773)
Accrued expenses	(5,842)	96,691
Security deposits	(250)	-
Deferred revenue	(22,591)	(1,183)
Net cash provided by operating activities	540,747	111,178
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(308,345)	(14,992)
Proceeds from sale of equipment	3,030	2,800
Purchase of property and equipment	(34,139)	(70,157)
Net cash used for investing activities	(339,454)	(82,349)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on note payable	(8,163)	(7,845)
Net cash provided by financing activities	(8,163)	(7,845)
Net increase in cash and equivalents and cash		
restricted for donor endowment	193,130	20,984
Beginning cash and equivalents and cash		
restricted for donor endowment	611,934	590,950
Ending cash and equivalents and cash		
restricted for donor endowment	\$ 805,064	\$ 611,934

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, 2017 and 2016**

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 501(c)(3) of the Internal Revenue Code located in Murfreesboro, Tennessee. The Organization 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 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 Organizations*. Accordingly, the Organization reports information regarding its consolidated financial position and activities according to the three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for the operating objectives of the Organization.

Temporarily restricted net assets consist of donor restricted contributions and grants. Amounts restricted by donors for a specific purpose are deemed to be earned and reported as temporarily restricted revenue, when received, and such unexpended amounts are reported as temporarily restricted net assets at year-end. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as “net assets released from restrictions”.

Permanently restricted net assets consist of donor restricted contributions, which are required to be held in perpetuity. Income from assets held is available for either general operations or specific purposes, in accordance with donor stipulations. Permanently restricted net assets as of December 31, 2017 and 2016 totaled \$535,486 and \$17,780, respectively.

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, 2017 and 2016**

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, 2017 and 2016 that were permanently restricted by donors for endowment purposes was \$209,858 and \$15,780, 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 unrestricted net assets.

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, 2017 and 2016, management has estimated the allowance for uncollectible accounts receivable to be \$9,140 and \$-0-, 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 fund-raising activity. As of December 31, 2017 and 2016, management has estimated the allowance for doubtful collectability to be \$5,724 and \$-0-, respectively.



**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2017 and 2016**

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 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 revenue 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 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, 2017 and 2016 totaled \$16,620 and \$21,320, 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.

The Organization had previously received unconditional promises to give under on-line giving campaigns. Investors were requested to denote the number of payments, schedule of payments and date of the last payment (“end dates”) when submitting their unconditional promise to give. As of December 31, 2016, the Organization had 21 investors that had promised to give on a weekly or monthly basis with end dates through December 2017.

The on-line unconditional promises to give were stated at the amount management expected to collect from balances outstanding at year-end. The estimated allowance for uncollectible on-line unconditional promises to give was based on management’s judgment of such factors as prior collection history and length of the pledge period. Management elected to record an allowance for any on-line unconditional promises to give that were to be paid in more than one year from the date of the consolidated statement of financial position. As of December 31, 2016, the Organization had outstanding on-line unconditional promises to give of \$7,794 of which \$-0- was due after December 31, 2017; therefore, as of December 31, 2016, on-line unconditional promises to give recorded on the consolidated statements of financial position totaled \$7,794.

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

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2017 and 2016**

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

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 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, 2017 and 2016 the Organization has received \$1,290 and \$23,881, respectively, for the race in the subsequent period.

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 2014, and to state tax authorities for years before 2012.

The Organization has evaluated its tax positions for all open tax years. Based on the evaluation of the Organization 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, 2017 and 2016.

Reclassifications

Reclassifications have been made to the presentation of certain items for the year ended December 31, 2016 to conform to the presentation for December 31, 2017. These reclassifications had no effect on previously reported statement of activities or net assets.

NOTE B – INVESTMENTS

Investments are stated at fair value and are summarized as follows as of December 31, 2017 and 2016:

	2017		2016	
	Cost	Value	Cost	Value
Equity securities	\$ 29,815	\$ 43,137	\$ 19,150	\$ 28,166
Endowment	335,173	347,820	14,824	15,134
Total investments	\$ 364,988	\$ 390,957	\$ 33,974	\$ 43,300

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2017 and 2016**

NOTE B – INVESTMENTS (CONTINUED)

For donated investments, cost is determined to be the fair value at the date of gift. During the years ended December 31, 2017 and 2016, the Organization received \$10,261 and \$10,430, respectively, in donated investments. As of December 31, 2017 and 2016, the unrealized gain on investments totaled \$25,969 and \$9,326, respectively. During the years ended December 31, 2017 and 2016, the change in the unrealized gain (loss) on investments totaled \$16,643 and (\$1,995), respectively. Investment income net of expenses for the years ended December 31, 2017 and 2016 totaled \$3,271 and \$203, 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.

During the year ended December 31, 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 permanently restricted net assets (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 permanently restricted net assets is classified as temporarily restricted net assets 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

As of December 31, 2017 and 2016 the endowment included net assets designated by the board for endowment and permanently restricted funds received from investors for endowment. The activity in the endowment during the year ended December 31, 2017 and 2016 and the balance as of December 31, 2017 and 2016 are as follows:

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2017 and 2016**

NOTE B – INVESTMENTS (CONTINUED)

	Board Designated for Endowment	Permanently Restricted	Total Endowment
Balance as of January 1, 2016	\$ -	\$ -	\$ -
Contributions	<u>12,791</u>	<u>17,780</u>	<u>30,571</u>
Balance as of December 31, 2016	12,791	17,780	30,571
Contributions	<u>-</u>	<u>517,706</u>	<u>517,706</u>
Balance as of December 31, 2017	<u>\$ 12,791</u>	<u>\$ 535,486</u>	<u>\$ 548,277</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, 2017 and 2016, 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, 2017 and 2016**

NOTE B – INVESTMENTS (CONTINUED)

Fair value measurements as of December 31, 2017 and 2016 are determined as follows:

Fair Value Measurements at December 31, 2017				
	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Totals
Equity securities	\$ 43,137	\$ -	\$ -	\$ 43,137
Endowment	-	-	347,820	347,820
Totals	\$ 43,137	\$ -	\$ 347,820	\$ 390,957

Fair Value Measurements at December 31, 2016				
	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Totals
Equity securities	\$ 28,166	\$ -	\$ -	\$ 28,166
Endowment	-	-	15,134	15,134
Totals	\$ 28,166	\$ -	\$ 15,134	\$ 43,300

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, 2017 and 2016:

	2017	2016
Balance, beginning of year	\$ 15,134	\$ -
Contributions	305,438	14,791
Investment income	4,241	35
Investment fees	(1,373)	(22)
Realized gains	11,932	19
Unrealized gains related to investments still held at the reporting date	12,448	311
Balance, end of year	\$ 347,820	\$ 15,134

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2017 and 2016**

NOTE C – ACCOUNTS RECEIVABLE, NET

Accounts receivable, net is composed of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Accounts receivable	\$ 153,904	\$ 203,709
Allowance for contractual adjustments	(9,631)	(84,599)
Allowance for uncollectible accounts receivable	(9,140)	(12,029)
Other receivables	<u>12,765</u>	<u>3,475</u>
Total accounts receivable, net	<u>\$ 147,898</u>	<u>\$ 110,556</u>

NOTE D – PROMISES TO GIVE, NET

As of December 31, 2017 and 2016, unconditional promises to give, net, are due as follows:

	<u>2017</u>	<u>2016</u>
Due within 1 year	\$ 31,245	\$ 20,498
Due within 1 to 5 years	<u>8,010</u>	<u>-</u>
Total	39,255	20,498
Present value discount	(401)	-
Allowance for uncollectible promises to give	<u>(5,724)</u>	<u>(1,717)</u>
Promises to give, net	33,130	18,781
Current portion of promises to give, net	<u>25,120</u>	<u>18,781</u>
Promises to give, net of current portion	<u>\$ 8,010</u>	<u>\$ -</u>

NOTE E – PROPERTY AND EQUIPMENT, NET

Property and equipment, net is composed of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 358,340	\$ 358,340
Building and improvements	2,194,565	2,194,565
Furniture and equipment	508,523	498,863
Leasehold improvements	28,904	13,383
Software	<u>17,902</u>	<u>49,416</u>
Totals	3,108,234	3,114,567
Less: Accumulated depreciation and amortization	<u>(617,054)</u>	<u>(524,266)</u>
Total property and equipment, net	<u>\$ 2,491,180</u>	<u>\$ 2,590,301</u>

For the years ended December 31, 2017 and 2016, depreciation and amortization totaled \$131,385 and \$132,425.

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2017 and 2016**

**NOTE F – ACCRUED EXPENSES**

Accrued expenses are composed of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Accrued payroll	\$ 45,288	\$ 45,045
Payroll related liabilities	1,583	673
Accrued paid time off	52,875	43,273
Accrued employee bonuses	16,722	-
Sales tax payable	120	10
Patient insurance overpayment	<u>15,761</u>	<u>49,190</u>
Total accrued expenses	<u>\$ 132,349</u>	<u>\$ 138,191</u>

**NOTE G – UNRESTRICTED NET ASSETS**

Unrestricted net assets, including Board of Directors designated net assets, as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Designated net assets:		
Building fund	\$ 29,813	\$ 29,813
Macedonia Fund	74,608	74,748
HALO Fund	4,957	0
Endowment fund	<u>12,791</u>	<u>12,791</u>
Total designated net assets	122,169	117,352
Undesignated assets	<u>2,654,345</u>	<u>2,605,265</u>
Total unrestricted net assets	<u>\$ 2,776,514</u>	<u>\$ 2,722,617</u>

The designations above are voluntary, board-approved segregations of unrestricted net assets for specific purposes and are used as an aid in planning future expenditures.

**NOTE H – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the purpose of providing scholarships to clients, and operating specific programs, and construction and renovation of the facilities. As of December 31, 2017 and 2016 temporarily restricted support received totaled \$122,643 and \$141,864, respectively.

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specifically made by donors. These restrictions were met by incurring costs for the construction of the new building and purchase of furniture, fixtures and equipment for use in the new building, through providing scholarships for children who receive services from Special Kids, Inc. by operating specific programs for the children, and by operating Camp Ability. During the years ended December 31, 2017 and 2016, net assets released from restriction totaled \$177,674 and \$118,770, respectively.

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2017 and 2016**

NOTE H – TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

The temporarily restricted net assets as of December 31, 2017 and 2016 are as follows:

	2017	2016
Facilities construction and renovation	\$ 223,785	\$ 223,785
Property	20,000	-
Equipment	2,876	692
Rehabilitation program scholarships	18,227	3,029
Camp Ability	19,508	65,630
Family services	932	1,000
Speech and group feeding therapy program	8,222	52,972
Go Baby Go	3,052	3,195
Tiny Diners	5,353	3,000
Software for Development team	-	6,000
Other projects	277	3,000
HALO fund	6,615	5,575
Servants Heart	4,000	-
Total temporarily restricted net assets	\$ 312,847	\$ 367,878

NOTE I – 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. Therefore, the note payable balance has been recorded as a current liability on the consolidated statements of financial position. The outstanding balance of the note payable as of December 31, 2017 and 2016 was \$117,851 and \$126,014, respectively.

NOTE J - RELATED PARTY TRANSACTIONS

The Organization provided various patient services for the children of directors and employees throughout the years ended December 31, 2017 and 2016. Services provided for the children of directors and employees during the year ended December 31, 2017 totaled \$-0- and \$41,780, respectively. Services provided for the children of directors and employees during the year ended December 31, 2016 totaled \$-0- and \$47,774, respectively.

Accounts receivable, net at December 31, 2017 includes \$-0- and \$3,408 due from directors' and employees or their insurance companies, respectively, and is expected to be paid by insurance reimbursement. Accounts receivable, net at December 31, 2016 includes \$-0- and \$4,434 due from directors and employees or their insurance companies, respectively, and is expected to be paid by insurance reimbursement or payment from the employee or director.



**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2017 and 2016**

**NOTE K - CONCENTRATION OF RISK**

The Organization is highly dependent on insurance company reimbursement of fees for rehabilitation and nursing services and 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 both December 31, 2017 and 2016, the Organization had funds in excess of the FDIC limits of \$194,938 and \$-0-, respectively.

**NOTE L – CASH FLOW INFORMATION**

During the years ended December 31, 2017 and 2016, net cash provided by operating activities included cash payments of interest totaling \$5,575 and \$5,896, respectively. There were no cash payments for income taxes during both years ended December 31, 2017 and 2016.

During the years ended December 31, 2017 and 2016, non-cash investing activities excluded from the statements of cash flows include in-kind donations of property and equipment totaling \$12,500 and \$-0-, respectively, and investments of \$10,261 and \$10,430, respectively.

In 2017 the Company adopted *FASB Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230)-Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. There was no material impact on the Company's results of operations or financial condition upon adoption of the new standard.

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, 2017 and 2016:

	2017	2016
Cash and equivalents	\$ 595,206	\$ 596,154
Cash restricted for donor endowment	209,858	15,780
Total cash and equivalents and cash restricted for donor endowment	\$ 805,064	\$ 611,934

**NOTE M - SUBSEQUENT EVENTS**

Subsequent events have been evaluated through May 29, 2018, which is the date the consolidated financial statements were available to be issued. There have been no other adjustments to the consolidated financial statements to include any subsequent transactions or events.