Special Kids, Inc.

Financial Statements

December 31, 2006 and 2005

With Independent Accountant's Report Thereon

H A Beasley & Company, PC

Certified Public Accountants

Murfreesboro, Tennessee

H A Beasley & Company, PC
Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REPORT

Board of Directors
Special Kids, Inc.

We have audited the accompanying statements of financial position of Special Kids, Inc. (a non-profit corporation) as of December 31, 2006 and 2005 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 audit.

We conducted our audit 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 audit provides 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, 2006 and 2005, and the change in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

May 8, 2007

A Positive Difference Through Professional Accounting Service

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SPECIAL KIDS, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2006 AND 2005

	2006	2005
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 318,893	$ 255,787
Investments	-	1,500
Accounts Receivable (Note C)	92,542	102,180
Prepaid Expenses	11,606	12,141
Total Current Assets	423,041	371,608
Land, Buildings and Equipment, net (Note D)	457,521	286,490
TOTAL ASSETS	880,562	658,098
LIABILITIES		
Accounts Payable and Accrued Expenses	41,232	7,965
Total Current Liabilities	41,232	7,965
NET ASSETS		
Unrestricted Net Assets (Note G)	839,330	650,133
TOTAL LIABILITIES & NET ASSETS	$ 880,562	$ 658,098

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, 2006 AND 2005

	2006	2005
REVENUES, GAINS & RECLASSIFICATIONS:		
Patient Fees	$ 745,265	$ 649,280
Private Gifts & Grants	484,826	224,997
Fundraising	193,493	215,478
Dividend and Interest Income	7,812	5,492
Total Revenue, Gains & Reclassifications	1,431,396	1,095,247
EXPENSES & LOSSES:		
Program Services:		
Rehabilitation	552,848	597,017
Nursing	419,638	344,697
Administration	110,105	118,149
Fundraising	159,609	55,175
Total Expenses	1,242,199	1,115,038
Change in Net Assets	189,197	(19,791)
Net Assets at Beginning of Year	650,133	669,924
NET ASSETS AT END OF YEAR	$ 839,330	$ 650,133

See accompanying notes and independent accountant's report.

SPECIAL KIDS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
OPERATING ACTIVITIES		
Change in Net Assets	$ 189,197	$ (19,791)
Adjustments to Reconcile to Cash From Operations:		
Depreciation (Note D)	18,278	16,654
Amortization (Note D)	68	84
(Increase)/Decrease in Investments	1,500	-
(Increase)/Decrease in Accounts Receivable	9,638	(25,342)
(Increase)/Decrease in Prepaid Expenses	535	(12,141)
Increase/(Decrease) in Accounts Payable and Accrued Expenses	33,267	(6,110)
Net Cash Provided/(Used) by Operations	252,483	(46,646)
INVESTING ACTIVITIES		
Purchase of Equipment	(14,377)	(23,600)
Non-Cash Donation of Land and Building (Note F)	(175,000)	-
Net Cash (Used) in Investing Activities	(189,377)	(23,600)
Net Increase/(Decrease) in Cash	63,106	(70,246)
Beginning Cash and Cash Equivalents	255,787	326,033
Ending Cash and Cash Equivalents	$ 318,893	$ 255,787

See accompanying notes and independent accountant's report.

SPECIAL KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005

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.

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:

	2006	2005
Land	$ 35,404	$ 35,404
Buildings and improvements	428,225	253,225
Furniture and equipment	43,133	43,133
Grant equipment	45,107	37,026
Grant software	16,772	10,476
Software	4,988	4,988
	573,629	384,252
Less accumulated depreciation and amortization	(116,108)	(97,762)
Total	$457,521	$ 286,490

Depreciation expense for the year ending December 31, 2006 and 2005 were $18,278 and $16,654, respectively.

Amortization expense for the year ending December 31, 2006 and 2005 were $68 and $84, respectively.

NOTE E--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. 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.

SPECIAL KIDS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005

NOTE F--NON-CASH DONATION OF LAND AND BUILDING

During the year ended December 31, 2006, land and a building were acquired through a non-cash donation. The property was recorded at fair market value and included in fixed assets. The $175,000 in revenue is included in Private Gifts & Grants in the statement of activities.

NOTE G--RESTRICTIONS ON NET ASSETS

All net assets are unrestricted at December 31, 2006 and 2005. On November 30, 2004 the Finance Committee of the board of Directors designated $114,973 of unrestricted net assets for the building fund.

NOTE H--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 region 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.

At December 31, 2006 and at certain times of the year the balance on deposit with Pinnacle Bank exceeded federally insured limits. The amount exceeding FDIC coverage at December 31, 2006 was $14,011.