

Special Kids, Inc.

(A Nonprofit Corporation)

Consolidated Financial Statements

With Independent Auditors' Report Thereon

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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, 2015 and 2014, 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 audits 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, 2015 and 2014, and the changes in its net assets, functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


H A Beasley & Company, PLLC

April 28, 2016

A Positive Difference Through Professional Accounting Service

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SPECIAL KIDS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

ASSETS		2015	2014
CURRENT ASSETS			
Cash and equivalents	\$	590,950	\$ 810,940
Investments		19,873	102,269
Accounts receivable, net		92,438	63,484
Promises to give		42,257	24,035
Prepaid expenses and other		47,890	39,951
Total current assets		793,408	1,040,679
PROPERTY AND EQUIPMENT, NET		2,654,470	2,220,889
TOTAL ASSETS	\$	3,447,878	\$ 3,261,568
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Note payable	\$	133,859	\$ -
Accounts payable		37,851	28,890
Accrued expenses		41,500	14,089
Security deposits		250	-
Deferred revenue		25,064	40,008
Total current liabilities		238,524	82,987
NET ASSETS			
Unrestricted net assets		2,864,570	2,588,669
Temporarily restricted net assets		344,784	589,912
Total net assets		3,209,354	3,178,581
TOTAL LIABILITIES & NET ASSETS	\$	3,447,878	\$ 3,261,568

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

SPECIAL KIDS, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015			2014		
	Unrestricted	Temporarily Restricted		Unrestricted	Temporarily Restricted	
		Totals	Totals		Unrestricted	Totals
Revenue and Support						
Patient fees:						
Bureau of TennCare	\$ 740,140	-	\$ 740,140	\$ 680,811	-	\$ 680,811
Private insurance	696,099	-	696,099	383,227	-	383,227
Private pay	241,286	-	241,286	220,125	-	220,125
Total patient fees	<u>1,677,525</u>	-	<u>1,677,525</u>	<u>1,284,163</u>	-	<u>1,284,163</u>
Private gifts and grants	471,397	146,127	617,524	417,859	120,020	537,879
In-kind donations, net of expenses	72,436	-	72,436	111,597	-	111,597
Special events and activities, net	406,068	-	406,068	369,743	-	369,743
Unrealized gain (loss) on investments	3,933	-	3,933	(1,311)	-	(1,311)
Realized gain on investments	1,439	-	1,439	5,062	-	5,062
Rent income	10,060	-	10,060	9,600	-	9,600
Investment income	1,231	-	1,231	2,203	-	2,203
Total other revenue and support	<u>2,644,089</u>	<u>146,127</u>	<u>2,790,216</u>	<u>2,198,916</u>	<u>120,020</u>	<u>2,318,936</u>
Net assets released from restrictions	391,255	(391,255)	-	1,437,078	(1,437,078)	-
Total revenue and support	<u>3,035,344</u>	<u>(245,128)</u>	<u>2,790,216</u>	<u>3,635,994</u>	<u>(1,317,058)</u>	<u>2,318,936</u>
Expenses						
Program services	1,905,307	-	1,905,307	1,597,700	-	1,597,700
Supporting services						
Management and general	181,056	-	181,056	136,310	-	136,310
Fundraising	399,200	-	399,200	330,754	-	330,754
Total expenses	<u>2,485,563</u>	-	<u>2,485,563</u>	<u>2,064,764</u>	-	<u>2,064,764</u>
Other expenses						
Miscellaneous income	2,237	-	2,237	1,400	-	1,400
Interest expense	(3,229)	-	(3,229)	(49)	-	(49)
Impairment charge	(272,262)	-	(272,262)	-	-	-
Loss on disposal of equipment	(626)	-	(626)	(4,068)	-	(4,068)
Total other expenses	<u>(273,880)</u>	-	<u>(273,880)</u>	<u>(2,717)</u>	-	<u>(2,717)</u>
CHANGE IN NET ASSETS	275,901	(245,128)	30,773	1,568,513	(1,317,058)	251,455
NET ASSETS AT BEGINNING OF YEAR	<u>2,588,669</u>	<u>589,912</u>	<u>3,178,581</u>	<u>1,020,156</u>	<u>1,906,970</u>	<u>2,927,126</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,864,570</u>	<u>\$ 344,784</u>	<u>\$ 3,209,354</u>	<u>\$ 2,588,669</u>	<u>\$ 589,912</u>	<u>\$ 3,178,581</u>

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

SPECIAL KIDS, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015			2014				
	Supporting Services			Supporting Services				
	Program Services	Management & General	Fund-raising	Totals	Program Services	Management & General	Fund-raising	Totals
Compensation and related expenses:								
Wages	\$ 1,387,079	\$ 106,698	\$ 284,529	1,778,306	\$ 1,124,397	\$ 86,492	\$ 230,645	\$ 1,441,534
Payroll taxes	104,505	8,039	21,437	133,981	88,238	6,788	18,100	113,126
Employee benefits	91,960	7,074	18,864	117,898	130,314	10,024	26,731	167,069
Total	1,583,544	121,811	324,830	2,030,185	1,342,949	103,304	275,476	1,721,729
Professional fees	-	19,637	-	19,637	-	11,500	-	11,500
Depreciation and amortization	84,242	6,480	17,280	108,002	44,052	3,389	9,036	56,477
Bank charges	6,545	503	1,343	8,391	6,135	472	1,259	7,866
Travel, meals and entertainment	3,745	288	768	4,801	3,481	268	714	4,463
Telephone and internet	15,123	1,163	3,102	19,388	12,606	970	2,586	16,162
Postage	5,119	394	1,050	6,563	3,539	272	726	4,537
Consulting	2,500	-	-	2,500	1,834	-	-	1,834
Supplies	83,239	6,403	17,075	106,717	58,690	4,515	12,039	75,244
Repairs and maintenance	26,174	2,013	5,369	33,556	18,274	1,406	3,748	23,428
Family support	28,014	-	-	28,014	29,921	-	-	29,921
Insurance	33,474	2,575	6,867	42,916	24,208	1,862	4,966	31,036
Conferences and events	-	-	2,952	2,952	-	-	3,555	3,555
Website maintenance	-	-	5,032	5,032	-	-	4,848	4,848
Subscriptions	14,016	1,078	2,875	17,969	31,612	2,432	6,484	40,528
Marketing	-	-	6,735	6,735	-	-	1,953	1,953
Real estate taxes	-	17,240	-	17,240	-	4,658	-	4,658
Lease expense	450	-	-	450	4,000	-	-	4,000
Licenses, registrations and taxes	3,193	246	654	4,093	-	-	-	-
Uniforms	3,618	278	743	4,639	-	-	-	-
Other expense	112	9	22	143	-	-	-	-
Utilities	12,199	938	2,503	15,640	16,399	1,262	3,364	21,025
Total functional expenses	\$ 1,905,307	\$ 181,056	\$ 399,200	\$ 2,485,563	\$ 1,597,700	\$ 136,310	\$ 330,754	\$ 2,064,764

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, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 30,773	\$ 251,455
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	108,002	56,477
Impairment charge	272,262	-
Unrealized (gain) loss on investments	(3,933)	1,311
Realized gain on investments	(1,439)	(5,062)
Non-cash donation of property and equipment	(72,436)	(111,597)
Loss on disposal of equipment	626	4,068
(Increase) decrease in operating assets:		
Accounts receivable, net	(28,954)	(12,627)
Promises to give	(18,222)	851,325
Prepaid expenses and other	(7,939)	(10,187)
Increase (decrease) in operating liabilities:		
Accounts payable	8,961	22,440
Accrued expenses	27,411	13,741
Security deposits	250	-
Deferred revenue	(14,944)	16,482
Net cash provided by operating activities	300,418	1,077,826
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,420)	(84,001)
Proceeds from sale of investments	92,188	83,348
Purchase of property and equipment	(742,035)	(1,163,686)
Net cash used for investing activities	(654,267)	(1,164,339)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	149,500	-
Principal payments on note payable	(15,641)	-
Net cash provided by financing activities	133,859	-
Net decrease in cash and equivalents	(219,990)	(86,513)
Beginning cash and equivalents	810,940	897,453
Ending cash and equivalents	\$ 590,950	\$ 810,940

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

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 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. The Organization had no permanently restricted net assets as of December 31, 2015 and 2014.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

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.

Cash and Equivalents

Cash and equivalents include cash and short-term investments with an initial maturity date of three months or less.

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, investment 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 technique 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, net consist of services provided to be paid by either the family or insurance companies. The accounts receivable, net 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.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

Promises to Give

Promises to give consist of contributions due in less than one year are recorded at their realizable value upon receipt. 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, 2015 and 2014 management has estimated the allowance for doubtful collectability to be \$-0-

Property and Equipment

The Organization capitalizes all property and equipment expenditures with a cost of \$250 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 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.

The Organization receives unconditional promises to give on-line. Investors are 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, 2015 and 2014, the Organization had 17 and 30 investors, respectively, that have promised to give on a weekly or monthly basis with end dates through June 2018.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

Contributions (continued)

The Organization has estimated that the unconditional promises to give in 2015 will be collected, but due to the lack of history of the collections from on-line unconditional promises to give management has elected to record a 100% allowance on the consolidated statement of financial position for the unconditional promises to give required to be paid subsequent to 2015. As of December 31, 2015 and 2014, the Organization had received \$24,700 and \$40,475, respectively, for on-line unconditional promises to give, of which \$15,435 and \$27,545, respectively, were for collections after January 1, 2017 and 2016, respectively. Therefore, as of December 31, 2015 and 2014, unconditional promises to give received on-line and recorded on the consolidated statement of financial position totaled \$9,265 and \$12,930, respectively.

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

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, 2015 and 2014 the Organization has received \$25,064 and \$40,008 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 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 2012, and to state tax authorities for years before 2010.

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, 2015 and 2014.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE B – INVESTMENTS

The portfolio of investments is carried at their fair market value using the hierarchy level 1 fair value measurement by using quoted market prices. For donated investments, cost is determined to be the fair value at the date of gift. During the years ended December 31, 2015 and 2014 the Organization received \$-0- and \$83,348, respectively, in donated investments. As of December 31, 2015 and 2014, the unrealized gain on these investments totaled \$11,321 and \$7,388, respectively. During the years ended December 31, 2015 and 2014 the change in the unrealized gain (loss) on investments totaled \$3,933 and (\$1,311), respectively. As of December 31, 2015 and 2014, the investments of the Organization are invested in domestic and international stocks with a fair market value of \$19,873 and \$102,269, respectively, and a cost of \$8,552 and \$94,881, respectively.

NOTE C – ACCOUNTS RECEIVABLE, NET

Accounts receivables, net are composed of the following as of December 31, 2015 and 2014:

	2015	2014
Accounts receivable	\$ 170,427	\$ 101,582
Allowance for contractual adjustments	(65,404)	(26,354)
Allowance for uncollectible accounts receivable	<u>(12,585)</u>	<u>(11,744)</u>
Total accounts receivable, net	<u>\$ 92,438</u>	<u>\$ 63,484</u>

NOTE D – PROPERTY AND EQUIPMENT, NET

Property and equipment, net are composed of the following as of December 31, 2015 and 2014:

	2015	2014
Land	\$ 338,590	\$ 266,800
Building and improvements	2,171,189	1,820,028
Furniture and equipment	488,788	233,999
Software	49,416	53,776
Construction in process	<u>904</u>	<u>143,860</u>
	3,048,887	2,518,463
Less: Accumulated depreciation and amortization	<u>(394,417)</u>	<u>(297,574)</u>
Total property and equipment, net	<u>\$ 2,654,470</u>	<u>\$ 2,220,889</u>

For the years ended December 31, 2015 and 2014, depreciation and amortization totaled \$108,002 and \$56,477.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE D – PROPERTY AND EQUIPMENT, NET (CONTINUED)

The Organization purchased certain real property during the year ended December 31, 2015 with the intent to rent the existing building until a time when they would demolish the structure and build additional space for providing services to the patients. Before December 31, 2015 it was found that the building would require significant improvements before it could be rented. Management determined the best economical decision was to demolish the building. The Organization subsequently demolished the building in March 2016. Therefore, the cost of the building was determined by management to be impaired as of December 31, 2015. An impairment charge of \$272,262 was recorded on the consolidated statement of activities for the year ended December 31, 2015.

NOTE E – ACCRUED EXPENSES

Accrued expenses are composed of the following as of December 31, 2015 and 2014:

	2015	2014
Payroll related liabilities	\$ 791	\$ 545
Accrued paid time off	19,509	13,544
Accrued employee bonuses	21,200	-
	\$ 41,500	\$ 14,089

NOTE F – UNRESTRICTED NET ASSETS

Unrestricted net assets, including Board of Directors designated net assets, as of December 31, 2015 and 2014 are as follows:

	2015	2014
Designated net assets:		
Building fund	\$ 29,813	\$ 150,000
Macedonia Fund	74,919	73,166
Endowment fund	12,791	0
HALO Fund	1,297	-
	118,820	223,166
Undesignated assets	2,745,750	2,365,503
Total unrestricted net assets	\$ 2,864,570	\$ 2,588,669

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.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE G – 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, 2015 and 2014 temporarily restricted support received totaled \$146,127 and \$120,020, respectively.

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specifically made by donors 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, and operating Camp Ability. During the years ended December 31, 2015 and 2014, net assets released from restriction totaled \$391,255 and \$1,437,078, respectively.

The temporarily restricted net assets as of December 31, 2015 and 2014 are as follows:

	2015	2014
Facilities construction and renovation	\$ 223,785	\$ 501,724
Equipment	4,621	1,000
Rehabilitation program scholarships	36,014	29,630
Camp Ability	57,000	26,139
Family services	1,000	5,585
Nursing supplies	-	6,020
Group feeding therapy program	116	5,000
Go Baby Go	3,195	-
Tiny Diners	2,398	-
Other projects	756	-
HALO fund	15,899	-
Mission fund	-	14,814
Total temporarily restricted net assets	<u>\$ 344,784</u>	<u>\$ 589,912</u>

NOTE H – NOTE PAYABLE

During the year ended December 31, 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 statement of financial position. The outstanding balance of the note payable as of December 31, 2015 was \$133,859.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE I - RELATED PARTY TRANSACTIONS

The Organization provided various patient services for the children of directors and employees throughout the years ended December 31, 2015 and 2014. Services provided for the children of directors and employees during the year ended December 31, 2015 totaled \$-0- and \$61,110 respectively. Services provided for the children of directors and employees during the year ended December 31, 2014 totaled \$-0- and \$50,548, respectively.

Accounts receivable, net at December 31, 2015 includes \$-0- and \$2,121 due from directors' and employees or the employees' insurance companies, respectively, and is expected to be paid by insurance reimbursement. Accounts receivable, net at December 31, 2014 includes \$-0- and \$2,957 due from directors' and employees or the employees' insurance companies, respectively, and is expected to be paid by insurance reimbursement or payment from the employee or director.

NOTE J - 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 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.

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. December 31, 2015 and 2014, the Organization had total funds in excess of the FDIC limits totaling \$-0- and \$66,924, respectively.

NOTE K - CASH FLOW INFORMATION

During the years ended December 31, 2015 and 2014, net cash provided by operating activities included cash payments of interest totaling \$3,229 and \$49, respectively, and income taxes totaling \$-0- and \$-0-, respectively.

During the years ended December 31, 2015 and 2014, non-cash investing activities excluded from the statement of cash flows include in-kind donations of property and equipment totaling \$72,436 and \$111,597.

NOTE L - SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 28, 2016, 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.