

***Special Kids, Inc.***

(A Nonprofit Corporation)

**Consolidated Financial Statements**

**With Independent Auditors' Report Thereon**

**For the Years Ended December 31, 2018 and 2017**

**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, 2018 and 2017, 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, 2018 and 2017, 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.

H A Beasley & Company, PLLC  
June 6, 2019

*A Positive Difference Through Professional Accounting Service*

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**SPECIAL KIDS, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2018 AND 2017**

	ASSETS	
	2018	2017
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 627,011	\$ 595,206
Investments	52,600	43,137
Accounts receivable, net	159,625	147,898
Promises to give, net	24,702	25,120
Prepaid expenses and other	48,966	31,512
Total current assets	912,904	842,873
PROPERTY AND EQUIPMENT, NET	2,528,784	2,491,180
<b>OTHER ASSETS</b>		
Promises to give, net of current portion	1,500	8,010
Investments held for donor endowment	678,204	347,820
Cash restricted for donor endowment	130,181	209,858
Total other assets	809,885	565,688
<b>TOTAL ASSETS</b>	<b>\$ 4,251,573</b>	<b>\$ 3,899,741</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Note payable	\$ 75,391	\$ 117,851
Accounts payable	14,292	23,404
Accrued expenses	155,707	132,349
Deferred revenue	158,465	1,290
Total current liabilities	403,855	274,894
<b>NET ASSETS</b>		
Without donor restrictions	2,922,014	2,776,514
With donor restrictions	925,704	848,333
Total net assets	3,847,718	3,624,847
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,251,573</b>	<b>\$ 3,899,741</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, 2018 AND 2017**

	2018		2017		
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	
Revenue and Support					
Patient fees					
Bureau of TennCare	\$ 951,725	-	\$ 951,725	-	\$ 895,959
Private insurance	751,128	-	1,220,931	-	1,220,931
Private pay	222,086	-	305,236	-	305,236
Total patient fees	1,924,939	-	2,422,126	-	2,422,126
Other revenue and support					
Private gifts and grants	579,388	359,228	584,616	640,349	1,224,569
In-kind donations, net of expenses	22,666	-	12,500	-	12,500
Special events and activities, net	454,523	-	408,652	-	408,652
Unrealized gain (loss) on investments	(71,816)	-	(71,816)	-	16,643
Realized gain on investments	22,845	-	12,408	-	12,408
Rent income	-	-	2,700	-	2,700
Investment income	10,725	-	4,996	-	4,996
Total revenue and support	2,943,270	359,228	3,302,498	640,349	4,104,594
Net assets released from donor restrictions:					
Satisfaction of program restrictions	281,857	(281,857)	-	(177,674)	-
Total revenue and support	3,225,127	77,371	3,302,498	462,675	4,104,594
Expenses					
Program services	2,369,944	-	2,369,944	-	2,764,828
Supporting services					
Management and general	218,773	-	218,773	-	248,865
Fundraising	491,081	-	491,081	-	571,026
Total expenses	3,079,798	-	3,079,798	-	3,584,719
Other income (expenses)					
Miscellaneous income (expenses)	1,450	-	1,450	1,117	1,117
Interest expense	(4,279)	-	(4,279)	(5,575)	(5,575)
Gain on disposal of equipment	3,000	-	3,000	1,155	1,155
Total other income (expenses)	171	-	171	(3,303)	(3,303)
CHANGE IN NET ASSETS	145,500	77,371	222,871	462,675	516,572
NET ASSETS AT BEGINNING OF YEAR	2,776,514	848,333	3,624,847	2,722,617	3,108,275
NET ASSETS AT END OF YEAR	\$ 2,922,014	\$ 925,704	\$ 3,847,718	\$ 2,776,514	\$ 3,624,847

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

**SPECIAL KIDS, INC.**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018			2017			
	Supporting Services			Supporting Services			
	Program Services	Management and General	Fund-raising	Program Services	Management and General	Fund-raising	Totals
Compensation and related expenses:							
Wages	\$ 1,796,407	\$ 138,185	\$ 368,494	\$ 2,092,009	\$ 160,924	\$ 429,130	\$ 2,682,063
Payroll taxes	121,158	9,320	24,853	148,321	11,409	30,425	190,155
Employee benefits	116,011	8,924	23,797	149,613	11,509	30,690	191,812
Total	2,033,576	156,429	417,144	2,389,943	183,842	490,245	3,064,030
Professional fees	-	36,032	-	-	37,243	-	37,243
Depreciation and amortization	102,173	7,859	20,959	102,480	7,883	21,022	131,385
Loss on bad debts	(4,255)	-	-	9,140	-	-	9,140
Bank charges	7,698	592	1,579	7,974	613	1,636	10,223
Travel, meals and entertainment	2,443	188	501	6,331	487	1,299	8,117
Telephone and internet	18,659	1,435	3,828	23,017	1,771	4,721	29,509
Endowment	1,118	-	-	-	-	-	-
Postage	1,700	131	348	1,963	151	403	2,517
Consulting	11,735	-	-	6,230	-	-	6,230
Supplies	43,101	3,315	8,842	60,571	4,659	12,425	77,655
Repairs and maintenance	29,990	2,307	6,152	36,809	2,831	7,551	47,191
Family support	9,837	-	-	18,564	-	-	18,564
Insurance	51,082	3,929	10,479	43,901	3,377	9,005	56,283
Conferences and events	-	-	3,209	-	-	3,629	3,629
Website maintenance	-	-	216	-	-	1,224	1,224
Subscriptions	29,313	2,255	6,013	27,107	2,085	5,560	34,752
Marketing	-	-	6,428	-	-	7,530	7,530
Real estate taxes	-	2,283	-	-	2,131	-	2,131
Lease expense	5,532	-	-	7,510	-	-	7,510
Licenses, registrations and taxes	451	35	92	710	55	145	910
Uniforms	4,097	315	841	4,433	341	909	5,683
Other expense	881	67	181	211	16	44	271
Utilities	20,813	1,601	4,269	17,934	1,380	3,678	22,992
Total functional expenses	\$ 2,369,944	\$ 218,773	\$ 491,081	\$ 2,764,828	\$ 248,865	\$ 571,026	\$ 3,584,719

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, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 222,871	\$ 516,572
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	130,991	131,385
Unrealized (gain) loss on investments	71,816	(16,643)
Realized gain on investments	(22,845)	(12,408)
Non-cash donation of investments	(9,988)	(10,261)
Gain on disposal of equipment	(3,000)	(1,155)
(Increase) decrease in operating assets:		
Accounts receivable, net	(11,727)	(37,342)
Promises to give, net	6,928	(14,349)
Prepaid expenses and other	(17,454)	11,305
Increase (decrease) in operating liabilities:		
Accounts payable	(9,112)	2,326
Accrued expenses	23,358	(5,842)
Security deposits	-	(250)
Deferred revenue	157,175	(22,591)
Net cash provided by operating activities	539,013	540,747
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(378,830)	(308,345)
Proceeds from sale of equipment	3,000	3,030
Purchase of property and equipment	(168,595)	(34,139)
Net cash used for investing activities	(544,425)	(339,454)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on note payable	(42,460)	(8,163)
Net cash used for financing activities	(42,460)	(8,163)
Net increase (decrease) in cash and equivalents and cash restricted for donor endowment	(47,872)	193,130
Beginning cash and equivalents and cash restricted for donor endowment	805,064	611,934
Ending cash and equivalents and cash restricted for donor endowment	\$ 757,192	\$ 805,064

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, 2018 and 2017**

**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 Section 501(c)(3) of the Internal Revenue Code and is located in Murfreesboro, Tennessee. The Organization is dedicated to providing quality and affordable rehabilitation and nursing services in a Christian environment. 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 Entities*. Accordingly, the Organization reports information regarding its consolidated financial position and activities according to the two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Net Assets Without Donor Restrictions

Net assets without donor restrictions include unrestricted resources which represent the portion of funds that are available for the operating objectives of the Organization.

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of donor restricted contributions and grants. Amounts restricted by donors for a specific purpose are deemed to be earned and reported as revenue with restrictions, when received, and such unexpended amounts are reported as net assets with restrictions at year-end. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as “net assets released from donor restrictions”.

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, 2018 and 2017**

**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, 2018 and 2017 that were permanently restricted by donors for endowment purposes was \$130,181 and \$209,858, 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 net assets without donor restrictions.

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, 2018 and 2017, management has estimated the allowance for uncollectible accounts receivable to be \$4,885 and \$9,140, 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 the fund-raising activity. As of December 31, 2018 and 2017, management has estimated the allowance for doubtful collectability to be \$3,152 and \$5,724, respectively.



**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2018 and 2017**

**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 net assets with donor restrictions. When restrictions are considered met, an appropriate amount is reclassified to net assets without donor restrictions. The useful lives of the long-lived assets are calculated based on the organization's depreciation policy.

Contributions

During the year ended December 31, 2018, management decided to early adopt the amendments in the *ASU No. 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which requires three new classifications of contributions received in the current year: conditional, unconditional with donor restrictions, or unconditional without donor restrictions. Conditional contributions, including conditional promises to give, are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Unconditional contributions, including unconditional promises to give are recognized as revenue in the period received.

A summary of these classifications as of December 31, 2018 are as follows:

Conditional	\$	140,741
Unconditional with donor restrictions	\$	126,336
Unconditional without donor restrictions	\$	85,750

The conditional contributions are reflected in the deferred revenue on the consolidated statement of financial position as of December 31, 2018.

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, 2018 and 2017 totaled \$32,000 and \$16,620, 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.

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2018 and 2017**

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 Event 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, 2018 and 2017 the Organization has received \$17,724 and \$1,290, 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 2015, and to state tax authorities for years before 2013.

The Organization has evaluated its tax positions for all open tax years. Based on the evaluation of the Organization's 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, 2018 and 2017.

NOTE B –IMPLEMENTATION OF ASU 2016-14

During the year ended December 31, 2018, the Organization implemented the *ASU No. 2016-14, Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*, which requires the Organization to report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the currently required amount for total net assets. The Organization has applied the new standard on a retrospective basis. There was no cumulative effect on the financial statements due to the application of this ASU. The change only affects the presentation of net assets in both the current and prior years from reporting unrestricted, temporarily restricted and permanently restricted net assets to net assets with and without donor restriction.

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2018 and 2017**

NOTE C –IMPLEMENTATION OF ASU 2018-08

During the year ended December 31, 2018, management decided to early adopt the amendments in the *ASU No. 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which assists the Organization in evaluating whether transactions should be accounted for as contributions within the scope of Topic 958, Not-for-Profit Entities, or as an exchange transaction subject to other guidelines. It also requires a determination of whether a contribution is considered conditional. The Organization has applied the new standard on a modified prospective basis. There was no cumulative effect on the financial statements. The change only affects the deferred revenue and grant income accounts as of December 31, 2018.

NOTE D – INVESTMENTS

Investments are stated at fair value and are summarized as follows as of December 31, 2018 and 2017:

	2018		2017	
	Cost	Value	Cost	Value
Equity securities	\$ 48,869	\$ 52,600	\$ 29,815	\$ 43,137
Endowment	<u>727,782</u>	<u>678,204</u>	<u>335,173</u>	<u>347,820</u>
Total investments	<u>\$ 776,651</u>	<u>\$ 730,804</u>	<u>\$ 364,988</u>	<u>\$ 390,957</u>

For donated investments, cost is determined to be the fair value at the date of gift. During the years ended December 31, 2018 and 2017, the Organization received \$9,988 and \$10,261, respectively, in donated investments. As of December 31, 2018 and 2017, the unrealized gain (loss) on investments totaled (\$45,847) and \$25,969, respectively. During the years ended December 31, 2018 and 2017, the change in the unrealized gain (loss) on investments totaled (\$71,816) and \$16,643, respectively. Investment income net of expenses for the years ended December 31, 2018 and 2017 totaled \$6,248 and \$3,271, 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.

In 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.

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2018 and 2017**

NOTE D – INVESTMENTS (CONTINUED)

*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 net assets with donor restrictions (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 net assets with donor restrictions is classified as net assets without donor restrictions 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, 2018 and 2017 the endowment included net assets designated by the board for endowment and donor restricted funds received from investors for endowment. The activity in the endowment during the year ended December 31, 2018 and 2017 and the balance as of December 31, 2018 and 2017 are as follows:

	Board Designated for Endowment	Permanently Restricted	Total Endowment
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	12,791	535,486	548,277
Contributions	<u>6,660</u>	<u>281,058</u>	<u>287,718</u>
Balance as of December 31, 2018	<u>\$ 19,451</u>	<u>\$ 816,544</u>	<u>\$ 835,995</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.

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2018 and 2017**

NOTE D – INVESTMENTS (CONTINUED)

*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, 2018 and 2017, 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.

Fair value measurements as of December 31, 2018 and 2017 are determined as follows:

Fair Value Measurements at December 31, 2018				
	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Totals
Equity securities	\$ 52,600	\$ -	\$ -	\$ 52,600
Endowment	-	-	678,204	678,204
Totals	\$ 52,600	\$ -	\$ 678,204	\$ 730,804
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

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2018 and 2017**

**NOTE D – INVESTMENTS (CONTINUED)**

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, 2018 and 2017:

	2018	2017
Balance, beginning of year	\$ 347,820	\$ 15,134
Contributions	372,435	305,438
Investment income	9,214	4,241
Investment fees	(3,742)	(1,373)
Realized gains	14,703	11,932
Unrealized gains (loss) related to investments still held at the reporting date	(62,226)	12,448
Balance, end of year	\$ 678,204	\$ 347,820

**NOTE E – ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net is composed of the following as of December 31, 2018 and 2017:

	2018	2017
Accounts receivable	\$ 250,757	\$ 153,904
Allowance for contractual adjustments	(86,247)	(9,631)
Allowance for uncollectible accounts receivable	(4,885)	(9,140)
Other receivables	-	12,765
Total accounts receivable, net	\$ 159,625	\$ 147,898

**NOTE F – PROMISES TO GIVE, NET**

As of December 31, 2018 and 2017, unconditional promises to give, net, are due as follows:

	2018	2017
Due within 1 year	\$ 27,912	\$ 31,245
Due within 1 to 5 years	1,500	8,010
Total	29,412	39,255
Present value discount	(58)	(401)
Allowance for uncollectible promises to give	(3,152)	(5,724)
Promises to give, net	26,202	33,130
Current portion of promises to give, net	24,702	25,120
Promises to give, net of current portion	\$ 1,500	\$ 8,010

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
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**NOTE G – PROPERTY AND EQUIPMENT, NET**

Property and equipment, net is composed of the following as of December 31, 2018 and 2017:

	2018	2017
Land	\$ 358,340	\$ 358,340
Building and improvements	2,212,937	2,194,565
Furniture and equipment	408,358	508,523
Leasehold improvements	164,518	28,904
Software	124,594	17,902
Totals	3,268,747	3,108,234
Less: Accumulated depreciation and amortization	(739,963)	(617,054)
Total property and equipment, net	\$ 2,528,784	\$ 2,491,180

For the years ended December 31, 2018 and 2017, depreciation and amortization totaled \$130,991 and \$131,385.

**NOTE H – ACCRUED EXPENSES**

Accrued expenses are composed of the following as of December 31, 2018 and 2017:

	2018	2017
Accrued payroll	\$ 40,968	\$ 45,288
Payroll related liabilities	2,209	1,583
Accrued paid time off	62,628	52,875
Accrued employee bonuses	29,305	16,722
Sales tax payable	17	120
Patient insurance overpayment	19,008	15,761
Other accrued expense	1,572	-
Total accrued expenses	\$ 155,707	\$ 132,349

**NOTE I – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Organization is supported in part by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus some financial assets may not be available for general expenditure within one year.

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2018 and 2017**

**NOTE I – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)**

The following reflects the Organization’s financial assets as of December 31, 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the date of the statement of financial position.

Financial assets as of year-end:	
Cash and equivalents	\$ 627,011
Cash restricted for donor endowment	130,181
Investments	52,600
Accounts receivable, net	159,625
Promises to give, net	<u>24,702</u>
Total financial assets as of year-end	994,119
Less those unavailable for general expenditures within one year due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	154,883
Subject to appropriation and satisfaction of donor restrictions	106,712
Board designations:	
Endowment	4,660
HALO fund	9,617
Macedonia fund	69,422
Buildings	<u>29,813</u>
Total unavailable for general expenditures within one year	<u>375,107</u>
Total financial assets available for general expenditures within one year	<u>\$ 619,012</u>

**NOTE J – BOARD DESIGNATIONS OF NET ASSETS WITHOUT RESTRICTIONS**

The Organization’s Board of Directors has designated, from net assets without donor restrictions of \$2,922,011, net assets for the following purposes as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Designated net assets:		
Building fund	\$ 29,813	\$ 29,813
Macedonia Fund	69,422	74,608
HALO Fund	9,617	4,957
Endowment fund	<u>19,451</u>	<u>12,791</u>
Total designated net assets	128,303	122,169
Undesignated assets	<u>2,793,708</u>	<u>2,654,345</u>
Total net assets without donor restrictions	<u>\$ 2,922,011</u>	<u>\$ 2,776,514</u>



**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
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NOTE J – BOARD DESIGNATIONS OF NET ASSETS WITHOUT RESTRICTIONS (CONTINUED)

The designations above are voluntary, board-approved segregations of net assets without donor restrictions for specific purposes and are used as an aid in planning future expenditures.

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with temporary donor restrictions include donations for providing scholarships to clients, and operating specific programs, and construction and renovation of the facilities. As of December 31, 2018 and 2017 support received totaled \$87,717 and \$122,643, respectively.

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specifically made by donors. The purpose of restrictions was accomplished by incurring costs for the following programs:

	<u>2018</u>	<u>2017</u>
Facilities construction and renovation	\$ 199,917	\$ -
Equipment and software	2,876	7,692
Rehabilitation program scholarships	13,603	30,801
Camp Ability	19,075	74,066
Family services	932	68
Speech and group feeding therapy program	8,222	54,113
Nursing	17,332	-
Go Baby Go	3,052	143
Tiny Diners	12,741	5,899
Other projects	277	3,967
Servants Heart	3,830	925
Total net assets released from restrictions	<u>\$ 281,857</u>	<u>\$ 177,674</u>

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2018 and 2017**

**NOTE K – NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)**

The net assets with temporary donor restrictions as of December 31, 2018 and 2017 are subject to expenditures for the following purposes:

	2018	2017
Facilities construction and renovation	\$ 43,872	\$ 223,785
Property	-	20,000
Equipment	15,000	2,876
Rehabilitation program scholarships	5,009	18,227
Camp Ability	9,645	19,508
Family services	-	932
Speech and group feeding therapy program	-	8,222
Nursing	7,914	-
Go Baby Go	-	3,052
Tiny Diners	2,612	5,353
Software for Development team	-	-
Other projects	-	277
HALO fund	7,425	6,615
Macedonia fund	15,065	-
Servants Heart	170	4,000
	\$ 106,712	\$ 312,847
Total temporarily restricted net assets		

Net assets that are permanently restricted by the donors for endowment purposes were \$818,992 and \$535,485 as of December 31, 2018 and 2017, respectively. Income permanently restricted by donors for endowment purposes totaled \$283,507 and \$517,706 for the years ended December 31, 2018 and 2017, respectively.

**NOTE L – 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, 2018 and 2017 was \$75,391 and \$117,851, respectively.

In December 2018, the Organization entered into a line of credit for \$250,000 with a bank bearing an interest rate of 5.25% per annum. The line of credit is payable on demand. As of December 31, 2018, the balance on the line of credit totaled \$-0-.

**NOTE M - CONCENTRATION OF RISK**

The Organization is highly dependent on insurance company reimbursement of fees for rehabilitation and nursing services, and to donors for charitable contributions. If the insurance funding for rehabilitation and nursing services decreased extensively, the Organization would experience difficulty in continuing operations.

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
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**NOTE M - CONCENTRATION OF RISK (CONTINUED)**

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, 2018 and 2017, the Organization had funds in excess of the FDIC limits of \$199,307 and \$194,938, respectively.

**NOTE N - RELATED PARTY TRANSACTIONS**

The Organization provided various patient services for the children of directors and employees throughout the years ended December 31, 2018 and 2017. Services provided for the children of directors and employees during the year ended December 31, 2018 totaled \$-0- and \$12,490, respectively. Services provided for the children of directors and employees during the year ended December 31, 2017 totaled \$-0- and \$41,780, respectively.

Accounts receivable, net at December 31, 2018 includes \$-0- and \$2,207 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, 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 or payment from the employee or director.

**NOTE O – CASH FLOW INFORMATION**

During the years ended December 31, 2018 and 2017, net cash provided by operating activities included cash payments of interest totaling \$4,279 and \$5,575, respectively. There were no cash payments for income taxes during both years ended December 31, 2018 and 2017.

During the years ended December 31, 2018 and 2017, non-cash investing activities excluded from the statements of cash flows include in-kind donations of property and equipment totaling \$22,666 and \$12,500 respectively, and investments of \$9,988 and \$10,261, respectively. In-kind contributions received during the years ended December 31, 2018 and 2017 totaled \$147,640 and \$224,548. Of those contributions, \$124,974 and \$212,048 were expensed as they were used in the various programs and events of the Organization.

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.

**Special Kids, Inc.**  
**Notes to Consolidated Financial Statements**  
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NOTE O – CASH FLOW INFORMATION (CONTINUED)

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, 2018 and 2017:

	2017	2016
Cash and equivalents	\$ 627,011	\$ 595,206
Cash restricted for donor endowment	130,181	209,858
Total cash and equivalents and cash restricted for donor endowment	\$ 757,192	\$ 805,064

NOTE P - SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 6, 2019, 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.