

Special Kids, Inc.

Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Special Kids, Inc.

Opinion

We have audited the consolidated financial statements of Special Kids, Inc. and Affiliate (the Organization), which comprise the consolidated statement of financial position as of December 31, 2022, the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2022, and the changes of its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the Organization, as of and for the year ended December 31, 2021, were audited by other auditors, whose report, dated June 15, 2022, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts, and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Blankenship CPA Group, PLLC

Blankenship CPA Group, PLLC
Goodlettsville, Tennessee
May 3, 2023

Special Kids, Inc.
Consolidated Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	\$ 2,679,540	\$ 2,629,217
Investments	47,212	46,959
Accounts receivable, net	78,487	55,907
Promises to give, net	25,500	12,785
Employee retention credits receivable	97,001	-
Prepaid expenses and other	53,454	36,282
Total current assets	2,981,194	2,781,150
Property and equipment, net	2,408,791	2,536,863
Cash restricted to donor endowment	108,155	429,274
Beneficial interest in assets held by Community Foundation of Middle Tennessee	2,281,512	2,184,073
Total assets	\$ 7,779,652	\$ 7,931,360
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 8,252	\$ 30,345
Accrued expenses	199,300	185,396
Deferred revenue	84,989	53,273
Total current liabilities	292,541	269,014
Net assets		
Without donor restrictions - undesignated	4,191,148	4,398,426
Without donor restrictions - board designated	239,069	201,066
With donor restrictions	3,056,894	3,062,854
Total net assets	7,487,111	7,662,346
Total liabilities and net assets	\$ 7,779,652	\$ 7,931,360

Special Kids, Inc.
Consolidated Statement of Activities
For the Year Ended December 31, 2022

	Without donor restrictions	With donor restrictions	Total
Revenue and Support			
Patient fees			
Bureau of TennCare	\$ 488,330	\$ -	\$ 488,330
Private insurance	1,098,583	-	1,098,583
Private pay	<u>154,118</u>	<u>-</u>	<u>154,118</u>
Total patient fees	1,741,031	-	1,741,031
Other revenue and support			
Contributions of cash and other financial assets	1,124,185	389,226	1,513,411
Contributions of nonfinancial assets	41,397	-	41,397
Special events and activities, net	190,880	-	190,880
Fundraising events ticket sales, net amounts of direct benefit to donor totaling \$66,974	99,970	-	99,970
Investment income (loss), net	32,621	(379,392)	(346,771)
Net assets released from restrictions	<u>15,794</u>	<u>(15,794)</u>	<u>-</u>
Total other revenue and support	1,504,847	(5,960)	1,498,887
Total revenue and support	3,245,878	(5,960)	3,239,918
Expenses			
Program services	2,776,927	-	2,776,927
Management and general	430,475	-	430,475
Fundraising	<u>429,837</u>	<u>-</u>	<u>429,837</u>
Total expenses	3,637,239	-	3,637,239
Other income (expenses)			
Miscellaneous income	222,289	-	222,289
Interest expenses	(28)	-	(28)
Loss on disposal of equipment	<u>(175)</u>	<u>-</u>	<u>(175)</u>
Total other income (expenses)	222,086	-	222,086
Change in net assets	(169,275)	(5,960)	(175,235)
Net assets, beginning of year	<u>4,599,492</u>	<u>3,062,854</u>	<u>7,662,346</u>
Net assets, end of year	\$ 4,430,217	\$ 3,056,894	\$ 7,487,111

Special Kids, Inc.
Consolidated Statement of Activities
For the Year Ended December 31, 2021

	Without donor restrictions	With donor restrictions	Total
Revenue and Support			
Patient fees			
Bureau of TennCare	\$ 688,764	\$ -	\$ 688,764
Private insurance	885,822	-	885,822
Private pay	152,345	-	152,345
Total patient fees	<u>1,726,931</u>	<u>-</u>	<u>1,726,931</u>
Other revenue and support			
Contributions of cash and other financial assets	984,042	1,012,426	1,996,468
Contributions of nonfinancial assets	43,034	-	43,034
Special events and activities, net	267,260	-	267,260
Fundraising events ticket sales, net amounts of direct benefit to donor totaling \$65,319	114,106	-	114,106
Investment income, net	44,746	167,793	212,539
Net assets released from restrictions	136,375	(136,375)	-
Total other revenue and support	<u>1,589,563</u>	<u>1,043,844</u>	<u>2,633,407</u>
Total revenue and support	3,316,494	1,043,844	4,360,338
Expenses			
Program services	2,386,120	-	2,386,120
Management and general	418,310	-	418,310
Fundraising	384,096	-	384,096
Total expenses	<u>3,188,526</u>	<u>-</u>	<u>3,188,526</u>
Other income (expenses)			
Paycheck Protection Program loan forgiveness	512,732	-	512,732
Miscellaneous income	10,268	-	10,268
Loss on disposal of equipment	(1,621)	-	(1,621)
Total other income (expenses)	<u>521,379</u>	<u>-</u>	<u>521,379</u>
Change in net assets	649,347	1,043,844	1,693,191
Net assets, beginning of year	<u>3,950,145</u>	<u>2,019,010</u>	<u>5,969,155</u>
Net assets, end of year	\$ 4,599,492	\$ 3,062,854	\$ 7,662,346

Special Kids, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2022

	Program services	Management and general	Fundraising	Total
Compensation and related expenses				
Wages	\$ 1,998,200	\$ 325,843	\$ 257,178	\$ 2,581,221
Payroll taxes	149,362	25,723	17,767	192,852
Employee benefits	<u>122,925</u>	<u>6,604</u>	<u>21,996</u>	<u>151,525</u>
Total compensation and related expenses	2,270,487	358,170	296,941	2,925,598
Bank charges	5,673	973	5,297	11,943
Conference and events	228	92	24	344
Consulting	-	7,800	-	7,800
Depreciation and amortization	122,336	4,453	13,210	139,999
Development expenses	-	-	15,453	15,453
Insurance	42,769	9,052	4,597	56,418
Lease expense	10,228	1,932	1,920	14,080
Licenses, registrations, and taxes	341	21	10	372
Loss (recovery) on bad debts	(3,884)	-	-	(3,884)
Marketing	4,300	-	13,029	17,329
Other expense	62	150	40	252
Postage	292	265	1,840	2,397
Professional fees	105,424	28,034	17,513	150,971
Repairs and maintenance	58,435	6,738	9,617	74,790
Small equipment	2,725	285	1,351	4,361
Subscriptions	46,589	645	1,635	48,869
Supplies	63,722	2,417	38,195	104,334
Telephone and internet	21,551	5,512	6,201	33,264
Travel, meals, and entertainment	805	55	994	1,854
Uniforms	3,204	-	-	3,204
Utilities	<u>21,640</u>	<u>3,881</u>	<u>1,970</u>	<u>27,491</u>
	\$ 2,776,927	\$ 430,475	\$ 429,837	\$ 3,637,239

Special Kids, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2021

	Program services	Management and general	Fundraising	Total
Compensation and related expenses				
Wages	\$ 1,696,946	\$ 290,376	\$ 240,535	\$ 2,227,857
Payroll taxes	129,300	21,292	19,431	170,023
Employee benefits	<u>189,532</u>	<u>39,938</u>	<u>20,069</u>	<u>249,539</u>
Total compensation and related expenses	2,015,778	351,606	280,035	2,647,419
Bank charges	3,634	1,011	5,569	10,214
Conference and events	273	301	248	822
Consulting	24,129	7,800	-	31,929
Depreciation and amortization	97,732	8,723	26,896	133,351
Development expenses	-	-	16,125	16,125
Insurance	43,222	12,823	4,669	60,714
Lease expense	10,372	2,253	1,760	14,385
Licenses, registrations, and taxes	-	322	240	562
Loss (recovery) on bad debts	382	-	-	382
Marketing	2,824	-	3,145	5,969
Other expense	-	350	-	350
Postage	578	500	1,544	2,622
Professional fees	11,513	16,454	1,769	29,736
Repairs and maintenance	22,177	3,392	4,436	30,005
Small equipment	2,269	237	1,125	3,631
Subscriptions	46,278	574	1,490	48,342
Supplies	59,028	2,660	24,834	86,522
Telephone and internet	22,799	5,341	6,239	34,379
Travel, meals, and entertainment	570	-	1,612	2,182
Uniforms	2,564	420	383	3,367
Utilities	19,998	3,543	1,761	25,302
Website maintenance	<u>-</u>	<u>-</u>	<u>216</u>	<u>216</u>
	\$ 2,386,120	\$ 418,310	\$ 384,096	\$ 3,188,526

Special Kids, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash and cash equivalents, beginning of year	\$ 3,058,491	\$ 2,048,321
Cash flows from operating activities		
Change in net assets	(175,235)	1,693,191
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Contributions restricted for long-term purposes	(389,226)	(1,012,426)
Depreciation and amortization	139,999	133,351
Unrealized loss (gain) on investments	402,455	(90,582)
Realized gain on investments	(22,440)	(81,034)
Loss on disposal of equipment	175	1,621
Change in:		
Accounts receivable, net	(22,580)	(18,075)
Promises to give, net	(12,715)	27,313
Employee retention credits receivable	(97,001)	-
Prepaid expenses and other	(17,172)	22,910
Accounts payable	(22,093)	8,997
Accrued expenses	13,904	(53,318)
Deferred revenue	31,716	(100,239)
Net cash provided (used) by operating activities	<u>(170,213)</u>	<u>531,709</u>
Cash flows from investing activities		
Purchase of investments	(500,147)	(299,272)
Proceeds from sale of investments	22,440	81,034
Purchase of property and equipment	<u>(12,102)</u>	<u>(315,727)</u>
Net cash provided (used) by investing activities	(489,809)	(533,965)
Cash flows from financing activities		
Contributions restricted for long-term purposes	389,226	1,012,426
Net change in cash and cash equivalents	<u>(270,796)</u>	<u>1,010,170</u>
Cash and cash equivalents, end of year	\$ 2,787,695	\$ 3,058,491

The following table provides a reconciliation of cash and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows:

Cash	\$ 2,679,540	\$ 2,629,217
Cash restricted for donor endowment	108,155	429,274
Cash and cash equivalents, end of year	\$ 2,787,695	\$ 3,058,491

Special Kids, Inc.
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 1. 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 (IRC) 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 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 (LLC). Special Kids, Inc. is the sole member of Special Kids Real Estate, LLC. All material inter-company balances and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP), as prescribed for not-for-profit organizations. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Undesignated – Net assets that are not subject to donor-imposed stipulations or designated by the Organization’s Board of Directors (Board).

Designated – Net assets designated by the Organization’s Board for particular purposes, presently designated by the Board for endowment.

Net Assets With Donor Restrictions

Net assets that are subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as increases to net assets without donor restrictions. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Generally, donors of these assets permit the Organization to use all or part of the income earned for general or specific purposes.

Use of Estimates

The preparation of financial statements in conformity with US GAAP 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Special Kids, Inc.
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 1. Nature of Activities, Principles of Consolidation, and Significant Accounting Principles

Cash and Cash 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, 2022 and 2021 that were permanently restricted by donors for endowment purposes was \$108,155 and \$429,274, respectively. Since these funds are not available for current operations, they are presented as a long-term asset.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Investment income and realized and unrealized gains and losses are reported as changes in net assets without donor restrictions unless the use of income has been restricted by the donor.

Accounts Receivable

Accounts receivable consist of services provided to be paid by either the patient 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, 2022 and 2021, management has estimated the allowance for uncollectible accounts receivable to be \$2,407 and \$6,292, respectively

Promises to Give

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. Management has reviewed promises to give as of December 31, 2022, and determined that no allowance is needed.

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.

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.

Special Kids, Inc.
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 1. Nature of Activities, Principles of Consolidation, and Significant Accounting Principles

Property and Equipment

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 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:

	Useful lives
Building and improvements	15 – 40 years
Furniture and equipment	5 – 7 years
Software	5 years

Leases (New Accounting Standard Adopted in 2022)

In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the income statement. The Organization adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Organization has applied Topic 842 to reporting periods beginning on January 1, 2022.

The adoption of ASC 842 had no material effect on the financial statements.

New Accounting Pronouncement

In September 2020, the FASB issued ASU *Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU was retroactively adopted by the Organization on January 1, 2022.

Revenue Recognition

Contributions of Financial Assets

Contributions are recognized when cash, other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met or the donor has explicitly released the restriction. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as net assets without donor restrictions.

Special Kids, Inc.
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 1. Nature of Activities, Principles of Consolidation, and Significant Accounting Principles

Revenue Recognition

Contributions of Nonfinancial Assets

Contributed services are reflected in the financial statements at the estimated fair value of the services received only when those services either (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Patient Fees

The Organization's program revenue is derived from providing family resources, outpatient rehabilitation service, and professional nursing services for children with special needs. Revenue is recognized when persuasive evidence of an arrangement existed, delivery of products or services had occurred, the sales price was fixed or determinable and collectability was reasonably assured in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*.

Special Events

The Organization has special events each year where admission is charged. A portion of the admission generally will be considered a contribution while the portion that is considered payment for a tangible benefit received by the attendee, such as a meal or a round of golf, is considered an exchange transaction under Accounting Standards Update (ASU) 2014-09. Any admission tickets sold in advance of the event would be considered a contract liability until the date of the event, which is the point in time that the Organization meets their performance obligation in relation to the exchange transaction and recognizes the revenue.

Functional Expenses

The cost of providing program and other activities has been summarized on a functional basis in the consolidated statement of activities. Certain expenses are specifically allocated to the functional category benefited. Other costs have been allocated among the program services, management and general, and fundraising functions based on the employees' estimate of time and effort in the various functional categories or estimates of usage of building space.

Income Taxes

The Organization is a not-for-profit organization that is exempt from federal income tax under IRC Section 501(c)(3) whereby only unrelated business income, as defined in Section 512(a)(1) of the IRC is subject to federal income tax. 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, 2022 and 2021.

Marketing Expense

The Organization expenses the cost of non-direct responsive advertising as incurred. For 2022 and 2021, marketing expenses totaled \$17,329 and \$5,969, respectively.

Reclassifications

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 presentation.

Special Kids, Inc.
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 2. Liquidity and Availability

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.

The following reflects the Organization's financial assets as of December 31, 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:

	2022	2021
Financial assets		
Cash and cash equivalents	\$ 2,787,695	\$ 3,058,491
Investments	47,212	46,959
Accounts receivable, net	78,487	55,907
Promises to give, net	25,500	12,785
Employee retention credits receivable	<u>97,001</u>	<u>-</u>
Total financial assets at year-end	3,035,895	3,174,142
Less amounts not available to be used within one year		
Contractual or donor-imposed restrictions		
Subject to appropriation and satisfaction of donor restrictions	772,079	516,356
Endowment	108,155	429,274
Board designations		
Endowment	104,852	66,849
HALO fund	34,217	34,217
Cash reserves	<u>100,000</u>	<u>100,000</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,916,592	\$ 2,027,446

Note 3. Investments and Endowment

Investments and beneficial interest in assets held by Community Foundation of Middle Tennessee are stated at fair value and are summarized as follows as of December 31, 2022:

	Cost	Fair Value
Cash or cash alternatives	\$ 18,833	\$ 18,833
Equity securities	23,160	28,379
Endowment held by Community Foundation of Middle Tennessee	<u>2,444,213</u>	<u>2,281,512</u>
Total investments	\$ 2,486,206	\$ 2,328,724

Special Kids, Inc.
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 3. Investments and Endowment

Investments and beneficial interest in assets held by Community Foundation of Middle Tennessee are stated at fair value and are summarized as follows as of December 31, 2021:

	Cost	Fair Value
Cash or cash alternatives	\$ 17,958	\$ 17,958
Equity securities	23,160	29,001
Endowment held by Community Foundation of Middle Tennessee	<u>1,944,942</u>	<u>2,184,073</u>
Total investments	\$ 1,986,060	\$ 2,231,032

For donated investments, cost is determined to be the fair value at the date of gift. During both of the years ended December 31, 2022 and 2021, the Organization did not receive donated investments.

In 2016, the Organization created an endowment fund 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 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 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 at (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.

Interpretation of Relevant Law in Relation to the Endowment

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

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Note 3. Investments and Endowment

As of December 31, 2022 and 2021 the Endowment included net assets designated by the board for endowment and donor restricted funds received from investors for endowment. The contribution activity in the Endowment during 2022 and 2021 and the balance are as follows:

	Board designated for endowment	With donor restrictions	Total
Balance as of December 31, 2020	\$ 42,440	\$ 1,873,901	\$ 1,916,341
Contributions for endowment	24,409	504,804	529,213
Investment return	<u>-</u>	<u>167,793</u>	<u>167,793</u>
Balance as of December 31, 2021	66,849	2,546,498	2,613,347
Contributions for endowment	38,003	117,709	155,712
Investment return	<u>-</u>	<u>(379,392)</u>	<u>(379,392)</u>
Balance as of December 31, 2022	\$ 104,852	\$ 2,284,815	\$ 2,389,667

Return Objectives and Risk Parameters of the 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% of the fund value or the amount in excess of the restricted gifts. During the years ended December 31, 2022 and 2021, the Organization did not receive any distributions from the Endowment.

In establishing this policy, the Organization considered the long-term expected return on the Endowment. Accordingly, over the long-term, the Organization expects the current spending policy to allow the Endowment to grow at an average of 1%-2% annually. This is consistent with the Organization's objective to maintain the purchasing power of Endowment assets held in perpetuity or for specified terms as well as to provide additional real growth through investment return.

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Note 4. Fair Value Measurements

The Organization uses a framework for measuring fair value and disclosing fair values. The Organization defines fair value at the price, which would be received to sell an asset in an orderly transaction between market participants at the measurement date. This framework is used for all assets and liabilities measured and reported on a fair value basis and enable the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Each asset and liability carried at fair value is classified into one of the following categories:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Observable market based inputs or unobservable inputs corroborated by market data.

Level 3 – Unobservable inputs not corroborated by market data.

Fair value measurements as of December 31, 2022 are determined as follows:

	Level 1	Level 2	Level 3	Total
Cash or cash alternatives	\$ 18,833	\$ -	\$ -	\$ 18,833
Equity securities	28,379	-	-	28,379
Endowment held by the Community Foundation of Middle Tennessee	-	-	2,281,512	2,281,512
Total	\$ 47,212	\$ -	\$ 2,281,512	\$ 2,328,724

Fair value measurements as of December 31, 2021 are determined as follows:

	Level 1	Level 2	Level 3	Total
Cash or cash alternatives	\$ 17,958	\$ -	\$ -	\$ 17,958
Equity securities	29,001	-	-	29,001
Endowment held by the Community Foundation of Middle Tennessee	-	-	2,184,073	2,184,073
Total	\$ 46,959	\$ -	\$ 2,184,073	\$ 2,231,032

All Level 3 investments are included in the Endowment held by the Foundation. The assets transferred to the Endowment are invested by the Foundation in investments that are in line with the Organization's Endowment policy.

The Level 3 investments are reported at fair value on a recurring basis determined by reference to quoted market prices for similar assets. The purchases of the Organization's Level 3 investments for 2022 and 2021 totaled \$529,213 and \$155,712, respectively. There were no amounts issued out of the Level 3 investments during 2022 and 2021. There were no other transfers in or out of Level 3 investments.

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Note 4. Fair Value Measurements

The following schedule summarizes investment income (loss) in the statements of activities:

	2022	2021
Interest and dividend income	\$ 32,244	\$ 40,923
Realized gain on investment	22,440	81,034
Unrealized gain (loss) on investment	<u>(402,455)</u>	<u>90,582</u>
	\$ (346,771)	\$ 212,539

Note 5. Accounts Receivable, Net

Accounts receivable, net is composed of the following:

	2022	2021
Account receivable	\$ 76,665	\$ 58,276
Allowance for uncollectible accounts receivable	(2,407)	(6,292)
Other receivables	<u>4,229</u>	<u>3,923</u>
Total accounts receivable, net	\$ 78,487	\$ 55,907

Note 6. Promises to Give, Net

Unconditional promises to give, net, are due as follows:

	2022	2021
Promises to give, net	\$ 25,500	\$ 12,785
Current portion of promises to give, net	<u>(25,500)</u>	<u>(12,785)</u>
Promises to give, net of current portion	\$ -	\$ -

Note 7. Property and Equipment, Net

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

	2022	2021
Land	\$ 358,340	\$ 358,340
Building and improvements	2,509,070	2,509,070
Furniture and equipment	387,307	384,010
Leasehold improvements	187,370	185,770
Software	<u>123,825</u>	<u>124,370</u>
	3,565,912	3,561,560
Less: accumulated depreciation	<u>(1,157,121)</u>	<u>(1,024,697)</u>
	\$ 2,408,791	\$ 2,536,863

For 2022 and 2021, depreciation and amortization totaled \$139,999 and \$133,351, respectively.

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Note 8. Accrued Expenses

Accrued expenses are composed of the following as of December 31:

	2022	2021
Accrued payroll	\$ 92,248	\$ 82,692
Accrued paid time off	102,425	99,820
Other accruals	<u>4,627</u>	<u>2,884</u>
Total accrued expenses	\$ 199,300	\$ 185,396

Note 9. Board Designated Net Assets

The Organization's Board of Directors has designated net assets for the following purposes as of December 31:

	2022	2021
Designated net assets		
Endowment	\$ 104,852	\$ 66,849
Halo fund	34,217	34,217
Cash reserves	<u>100,000</u>	<u>100,000</u>
Total designated net assets	\$ 239,069	\$ 201,066

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 10. 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.

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

	2022	2021
Facilities construction and renovation	\$ -	\$ 132,048
Director development	-	2,400
Tiny Diners	2,931	1,277
Equipment	4,900	-
Supplies	1,580	-
Therapy	5,000	-
Other projects	<u>1,383</u>	<u>650</u>
Total net assets with donor restrictions	\$ 15,794	\$ 136,375

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Note 10. Net Assets With Donor Restrictions

The net assets with donor restrictions as of December 31 are subject to expenditures for the following purposes:

	2022	2021
Endowment	\$ 2,284,815	\$ 2,546,498
Nursing	-	329
Tiny Diners	4,012	1,942
Raintree analytical tool	-	1,050
Dishwasher	-	558
Staff appreciation	-	10
Organizational supplies	-	168
Future expansion	750,000	500,000
Therapy chair	-	793
Washer and dryer	-	2,500
Camp ability	308	-
Speech Supplies	3,273	-
Equipment	5,000	-
HALO fund	<u>9,486</u>	<u>9,006</u>
Total net assets with donor restrictions	\$ 3,056,894	\$ 3,062,854

Note 11. Line of Credit

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 and maturing in December 2028. The line of credit is payable on demand. As of December 31, 2022 and 2021, there was no balance on the line of credit.

Note 12. Paycheck Protection Program Loan

On January 23, 2021, the Organization was granted a second loan from a bank in the amount of \$512,732 pursuant to the Paycheck Protection Program (the PPP) which was established under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) and administered by the Small Business Administration (SBA). On October 18, 2021, the SBA issued a full forgiveness of the loan, which was recognized as other income in the statements of activities.

Note 13. Contributed Nonfinancial Assets

The following represents contributed nonfinancial assets:

	2022	2021
Organizational supplies and services	\$ 6,895	\$ 20,300
Event supplies and services	<u>34,502</u>	<u>22,734</u>
Total contributed nonfinancial assets	\$ 41,397	\$ 43,034

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Note 13. Contributed Nonfinancial Assets

Contributed organizational supplies and services represent goods and services that were provided to the Organization in the furtherance of its objectives. The Organization estimated the fair value of the goods by estimating what it would cost to buy similar items through large retailers. The providers of these services provided the Organization with an estimated fair value of the services performed to be recorded as a contributed nonfinancial asset.

Contributed event supplies and services represent goods and services that were provided to the Organization to execute their fundraising events. The Organization estimated the fair value of the goods by estimating what it would cost to buy similar items through large retailers. The providers of these services provided the Organization with an estimated fair value of the services performed to be recorded as a contributed nonfinancial asset.

Note 14. Commitments

The Organization leases certain office equipment with terms ranging from 36 to 60 months, requiring monthly payments ranging from \$160 to \$322, and with maturities through January 2025. No amounts for right-of-use assets or lease liabilities have been included in the financial statements as the amounts are immaterial.

Note 15. Concentrations

The Organization is highly dependent on insurance company reimbursements 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. If the economic conditions in the middle Tennessee area were to deteriorate there is the risk that donors would reduce their charitable giving, and the Organization could 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 which is \$250,000 for substantially all depository accounts. As of December 31, 2022 and 2021, the Organization had funds in excess of the FDIC limits of \$1,175,454 and \$1,321,660 respectively.

Note 16. Subsequent Events

Management has evaluated subsequent events through May 3, 2023, the date on which the financial statements were available for issuance.