

SPECIAL KIDS, INC.
(A Nonprofit Organization)

Consolidated Financial Statements

With Independent Auditors' Report Thereon

For The Years Ended December 31, 2012 and 2011

H A Beasley & Company, PC
Certified Public Accountants
Murfreesboro, Tennessee

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Special Kids, Inc.

We have audited the accompanying consolidated financial statements of Special Kids, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 consolidated financial position of Special Kids, Inc. as of December 31, 2012 and 2011, and the changes in its consolidated net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

HA Beasley & Company
Murfreesboro, TN
April 26, 2013

SPECIAL KIDS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012 AND 2011

ASSETS		
	2012	2011
CURRENT ASSETS		
Cash & equivalents	\$ 385,358	\$ 217,109
Investments	9,333	4,903
Accounts receivable	14,484	74,429
Promises to give	14,130	-
Prepaid Expenses	23,404	35,373
Total Current Assets	446,709	331,814
Property and equipment, net	493,097	457,992
TOTAL ASSETS	\$ 939,806	\$ 789,806
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 13,440	\$ 16,127
Accrued expenses	1,464	2,465
Deferred revenue	46,667	35,179
Total Current Liabilities	61,571	53,771
NET ASSETS		
Unrestricted net assets	774,309	660,614
Temporarily restricted net assets	103,926	75,421
TOTAL NET ASSETS	878,235	736,035
TOTAL LIABILITIES & NET ASSETS	\$ 939,806	\$ 789,806

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

SPECIAL KIDS, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support						
Patient fees:						
Bureau of TennCare	\$ 610,250	\$ -	\$ 610,250	\$ 529,236	\$ -	\$ 529,236
Private insurance	302,465	-	302,465	348,892	-	348,892
Private pay	<u>105,492</u>	<u>-</u>	<u>105,492</u>	<u>127,853</u>	<u>-</u>	<u>127,853</u>
Total patient fees	1,018,207	-	1,018,207	1,005,981	-	1,005,981
Private gifts and grants	376,471	103,159	479,630	311,764	60,607	372,371
In-kind donations	41,635	-	41,635	-	-	-
Unrealized loss on investments	(802)	-	(802)	-	-	-
Special events and activities, net	231,393	-	231,393	187,011	-	187,011
Dividend and interest income	<u>962</u>	<u>-</u>	<u>962</u>	<u>522</u>	<u>-</u>	<u>522</u>
Total revenue and support	1,667,866	103,159	1,771,025	1,505,278	60,607	1,565,885
Net assets released from restrictions	<u>74,654</u>	<u>(74,654)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND OTHER SUPPORT	1,742,520	28,505	1,771,025	1,505,278	60,607	1,565,885
Expenses						
Program services	1,259,470	-	1,259,470	1,173,926	-	1,173,926
Supporting services						
Management and general	105,369	-	105,369	107,042	-	107,042
Fundraising	<u>262,882</u>	<u>-</u>	<u>262,882</u>	<u>221,327</u>	<u>-</u>	<u>221,327</u>
TOTAL EXPENSES	<u>1,627,721</u>	<u>-</u>	<u>1,627,721</u>	<u>1,502,295</u>	<u>-</u>	<u>1,502,295</u>
Other expenses						
Interest expense	(105)	-	(105)	(1,110)	-	(1,110)
Loss on disposal of equipment	<u>(999)</u>	<u>-</u>	<u>(999)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(1,104)</u>	<u>-</u>	<u>(1,104)</u>	<u>(1,110)</u>	<u>-</u>	<u>(1,110)</u>
CHANGE IN NET ASSETS	113,695	28,505	142,200	1,873	60,607	62,480
Net Assets at Beginning of Year and as previously stated	660,614	75,421	736,035	549,732	14,814	564,546
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,009</u>	<u>-</u>	<u>109,009</u>
NET ASSETS AT END OF YEAR AND AS RESTATED	<u>\$ 774,309</u>	<u>\$ 103,926</u>	<u>\$ 878,235</u>	<u>\$ 660,614</u>	<u>\$ 75,421</u>	<u>\$ 736,035</u>

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

SPECIAL KIDS, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
		<u>Management & General</u>	<u>Fund- raising</u>	
Compensation and Related Expenses:				
Wages	\$ 937,658	\$ 69,888	\$ 190,982	\$ 1,198,528
Payroll Taxes	81,121	6,046	16,523	103,690
Employee Benefits	<u>88,442</u>	<u>6,592</u>	<u>18,014</u>	<u>113,048</u>
	1,107,221	82,526	225,519	1,415,266
Accounting	-	10,850	-	10,850
Depreciation	17,510	1,305	3,567	22,382
Amortization	6,615	493	1,347	8,455
Bank Charges	3,384	252	690	4,326
Travel, Meals & Entertainment	2,636	196	537	3,369
Telephone & Internet	11,807	880	2,405	15,092
Postage	3,546	264	723	4,533
Consulting	1,800	-	-	1,800
Supplies	33,931	2,529	6,911	43,371
Repairs & Maintenance	20,010	1,492	4,075	25,577
Family Support	4,164	-	-	4,164
Insurance	17,694	1,319	3,604	22,617
Conferences & Events	-	-	3,053	3,053
Website Maintenance	-	-	4,836	4,836
Subscriptions	18,191	1,356	3,705	23,252
Utilities	<u>10,961</u>	<u>1,907</u>	<u>1,910</u>	<u>14,778</u>
	<u>\$ 1,259,470</u>	<u>\$ 105,369</u>	<u>\$ 262,882</u>	<u>\$ 1,627,721</u>

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

SPECIAL KIDS, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Supporting Services		Total	
	Program Services	Management & General		Fund- raising
Compensation and Related Expenses:				
Wages	\$ 913,433	\$ 68,082	\$ 186,048	\$ 1,167,563
Payroll Taxes	78,960	6,046	15,922	100,928
Employee Benefits	37,234	2,775	7,584	47,593
	<u>1,029,627</u>	<u>76,903</u>	<u>209,554</u>	<u>1,316,084</u>
Accounting	-	10,450	-	10,450
Depreciation	17,585	1,701	1,978	21,264
Amortization	6,548	569	-	7,117
Bank Charges	3,430	558	-	3,988
Travel, Meals & Entertainment	1,961	947	-	2,908
Telephone & Internet	12,246	3,604	1,625	17,475
Postage	3,769	527	441	4,737
Consulting	1,587	212	-	1,799
Supplies	30,433	1,835	3,309	35,577
Repairs & Maintenance	10,662	1,572	1,254	13,488
Family Support	2,381	-	-	2,381
Insurance	15,428	3,061	1,896	20,385
Conferences & Events	12,866	961	-	13,827
Subscriptions	13,237	2,528	-	15,765
Utilities	10,783	1,614	1,270	13,667
Other	1,383	-	-	1,383
	<u>\$ 1,173,926</u>	<u>\$ 107,042</u>	<u>\$ 221,327</u>	<u>\$ 1,502,295</u>

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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ 142,200	\$ 62,480
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and amortization	30,837	28,381
Unrealized loss on investments	802	-
Non-cash donation of investments	(5,232)	(4,903)
Loss on Disposal of equipment	999	1,385
(Increase) decrease in operating assets:		
Accounts receivable	59,945	27,444
Promises to give	(14,130)	-
Prepaid expenses	11,969	(2,706)
Increase (decrease) in operating assets:		
Accounts payable	(2,687)	(10,032)
Accrued expenses	(1,001)	(1,773)
Deferred revenue	<u>11,488</u>	<u>41,493</u>
Net Cash Provided by Operating Activities	235,190	141,769
<u>CASH FLOWS USED FOR INVESTING ACTIVITIES</u>		
Purchase of Equipment	<u>(66,941)</u>	<u>(5,225)</u>
Net increase in cash and equivalents	168,249	136,544
Beginning cash & equivalents	<u>217,109</u>	<u>80,565</u>
Ending cash & equivalents	<u>\$ 385,358</u>	<u>\$ 217,109</u>
Supplemental Disclosure:		
Interest paid	<u>\$ 105</u>	<u>\$ 1,110</u>

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

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE A -- NATURE OF ACTIVITIES, BASIS OF ACCOUNTING, PRINCIPLES OF CONSOLIDATION AND SIGNIFICANT ACCOUNTING PRINCIPLES

Special Kids, Inc. (the "Organization") is located in Murfreesboro, Tennessee. Special Kids, Inc. is a tax-exempt organization under 501(c)(3) of the Internal Revenue Code. Special Kids, Inc. is dedicated to providing quality and affordable rehabilitation and nursing services in a loving, Christian environment with the support and guidance of the physician. The goal is that no family would be denied service due to lack of funding, or access to services. The Organization believes the family unit is important and by offering quality-coordinated services, Special Kids, Inc. strives to minimize the pressures of parenting a child with special needs.

Principles of Consolidation

The accompanying financial statements include the accounts of Special Kids, Inc. and Special Kids Real Estate, L.L.C. (the consolidated group referred to as the "Organization"). Special Kids Real Estate L.L.C. is a single member limited liability company (L.L.C.). Special Kids, Inc. is the sole member of Special Kids Real Estate, L.L.C. All material intercompany balances and transactions have been eliminated in consolidation.

Accrual Basis

The consolidated financial statements of the organization have been prepared on the accrual basis.

Basis of Presentation

The organization presents its financial statements in accordance with Financial Statements 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

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

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".

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

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

Basis of Presentation (continued)

Permanently restricted net assets

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, 2012 and 2011.

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 original maturities of three months or less.

Investments

The Organization follows the Not-For-Profit Entities subtopic and Revenue Recognition subtopic of the FASB Accounting Standards Codification 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. Unrealized gains and losses are included in the change in unrestricted net assets.

Accounts receivable

Accounts receivable consist of services provided to be paid by either the family or insurance companies. The account receivables are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with clients having outstanding balances and current relationships with them. As of December 31, 2012 and 2011 management has estimated the allowance for doubtful accounts totaled \$-0-.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE A – NATURE OF ACTIVITIES, BASIS OF ACCOUNTING, 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 on management's evaluation of potential uncollectible pledges to give at year-end. As of December 31, 2012 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 is computed using the straight-line method over the estimated useful lives of the related assets ranging from 5 -39 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. An allowance for uncollectible contribution receivables is provided based upon management's judgement, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

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

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

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

Fair Value Measurements

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 realizable evidence of fair value. Level 3 inputs would be used only when Level 1 or level 2 inputs were not available.

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 2009, and to state tax authorities for years before 2007.

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 have been recorded for the years ended December 31, 2012 and 2011.

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, 2012 and 2011 the Organization received \$5,232 and \$4,903, respectively, in donated investments.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE B – INVESTMENTS (CONTINUED)

The investment portfolio as of December 31, 2012 and 2011 include domestic equities donated to the Organization which had a fair market value on the date the domestic equity was donated of \$10,135. As of December 31, 2012 and 2011, the unrealized loss on these domestic equities totaled \$802.

NOTE C – PROPERTY AND EQUIPMENT, NET

Property and equipment, net are composed of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land	119,404	119,404
Building and improvements	430,919	402,512
Furniture and equipment	116,263	93,929
Software	<u>49,677</u>	<u>34,876</u>
	716,263	650,721
Less: accumulated depreciation and amortization	<u>(223,166)</u>	<u>(192,729)</u>
Total property and equipment, net	<u>\$ 493,097</u>	<u>\$ 457,992</u>

During the years ended December 31, 2012 and 2011 depreciation and amortization totaled \$30,837 and \$28,381.

The land, building and improvements are held by Special Kids Real Estate, L.L.C.

NOTE D – UNRESTRICTED NET ASSETS

Board of Directors designated net assets as of December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Designated net assets:		
Building fund	\$ 115,473	\$ 114,973
Macedonia Fund	<u>17,922</u>	<u>24,888</u>
	133,395	139,861
Undesignated assets	<u>640,914</u>	<u>520,753</u>
Total unrestricted net assets	<u>\$ 774,309</u>	<u>\$ 660,614</u>

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE D – UNRESTRICTED NET ASSETS (CONTINUED)

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

NOTE E – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the purpose of scholarship and specific program as of December 31, 2012 and 2011 support totaling \$89,113 and \$60,607, respectively, and missionary funds total \$14,814 each year.

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specifically by donors through scholarships for children who attend Special Kids during December 31, 2012 and 2011 totaled \$60,607 and \$-0-, respectively.

NOTE F – RELATED PARTY TRANSACTIONS

Related Party Accounts Receivable

Special Kids, Inc. provided various patient services for the children of directors and employees throughout the years ended December 31, 2012 and 2011. Services provided for the children of directors and employees during the year ended December 31, 2012 totaled \$11,296 and \$47,577 respectively. Services provided for the children of directors and employees during the year ended December 31, 2011 totaled \$2,100 and \$40,234, respectively.

Accounts receivable at December 31, 2012 includes \$19 and \$2,132 due from directors' and employees' insurance companies, respectively, and is expected to be paid by insurance reimbursement. Accounts receivable at December 31, 2011 includes \$180 and \$2,351 due from directors' and employees' insurance companies, respectively, and is expected to be paid by insurance reimbursement.

Related Party Vendors

Special Kids, Inc. purchases various products and services from directors or the companies that employ directors. Special Kids, Inc. conducted business throughout the year with directors which totaled \$983 and \$3,356 during 2012 and 2011, respectively.

NOTE G – CONCENTRATION OF RISK

The Organization is highly dependent on insurance company reimbursement of fees for rehabilitation and nursing services and on charitable contributions. If the insurance funding for rehabilitation and nursing services decreased extensively, the organization would experience serious difficulty in continuing operations. Also, because the organization is a TennCare provider there is a risk related to continuance of the TennCare program. Management indicated that it is expected that if the TennCare program is discontinued, another provider arrangement would be made or the services would revert to the federal Medicaid program.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE H – PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2012, management determined that the current liabilities at the beginning of the year was overstated by \$109,009, due to accounts being recorded as deferred revenue instead of designated unrestricted net assets and temporary net assets. As a result, unrestricted and temporary net assets were understated.

NOTE I – SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 26, 2013, which is the date the consolidated financial statements were available to be issued. No subsequent events were noted by the Organization.