

Special Kids, Inc.

(A Nonprofit Corporation)

Consolidated Financial Statements

With Independent Auditors' Report Thereon

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Special Kids, Inc. as of December 31, 2016 and 2015, and the changes in its net assets, functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


H A Beasley & Company, PLLC

April 18, 2017

A Positive Difference Through Professional Accounting Service

Murfreesboro Office: P.O. Box 11669 • 111 MTCS Drive • Murfreesboro, TN 37129 • (615) 895-5675

Shelbyville Office: P.O. Box 1044 • 306 Bethany Lane • Shelbyville, TN 37162 • (931) 680-0660

www.HABeasley.com

SPECIAL KIDS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS		
	2016	2015
CURRENT ASSETS		
Cash and equivalents	\$ 596,154	\$ 590,950
Investments	28,166	19,873
Accounts receivable, net	109,376	92,438
Promises to give, net	19,961	42,257
Prepaid expenses and other	42,817	47,890
Total current assets	796,474	793,408
ENDOWMENT		
Investments	15,134	-
Cash and equivalents	15,780	-
Total endowment	30,914	-
PROPERTY AND EQUIPMENT, NET	2,590,301	2,654,470
TOTAL ASSETS	\$ 3,417,689	\$ 3,447,878
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Note payable	\$ 126,014	\$ 133,859
Accounts payable	21,078	37,851
Accrued expenses	138,191	41,500
Security deposits	250	250
Deferred revenue	23,881	25,064
Total current liabilities	309,414	238,524
NET ASSETS		
Unrestricted net assets	2,722,617	2,864,570
Temporarily restricted net assets	367,878	344,784
Permanently restricted net assets	17,780	-
Total net assets	3,108,275	3,209,354
TOTAL LIABILITIES AND NET ASSETS	\$ 3,417,689	\$ 3,447,878

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

SPECIAL KIDS, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Totals
Revenue and Support							
Patient fees:							
Bureau of TennCare	\$ 856,215	\$ -	\$ -	\$ 856,215	\$ 740,140	\$ -	\$ 740,140
Private insurance	1,010,368	-	-	1,010,368	696,099	-	696,099
Private pay	300,275	-	-	300,275	241,286	-	241,286
Total patient fees	<u>2,166,858</u>	<u>-</u>	<u>-</u>	<u>2,166,858</u>	<u>1,677,525</u>	<u>-</u>	<u>1,677,525</u>
Other revenue and support							
Private gifts and grants	409,771	141,864	7,300	558,935	471,397	146,127	617,524
In-kind donations, net of expenses	-	-	10,480	10,480	72,436	-	72,436
Special events and activities, net	386,355	-	-	386,355	406,068	-	406,068
Unrealized gain (loss) on investments	(1,995)	-	-	(1,995)	3,933	-	3,933
Realized gain on investments	-	-	-	-	1,439	-	1,439
Rent income	10,800	-	-	10,800	10,060	-	10,060
Investment income	1,038	-	-	1,038	1,231	-	1,231
Total revenue and support	<u>2,972,827</u>	<u>141,864</u>	<u>17,780</u>	<u>3,132,471</u>	<u>2,644,089</u>	<u>146,127</u>	<u>2,790,216</u>
Net assets released from restrictions	<u>118,770</u>	<u>(118,770)</u>	<u>-</u>	<u>-</u>	<u>391,255</u>	<u>(391,255)</u>	<u>-</u>
Total revenue and support	<u>3,091,597</u>	<u>23,094</u>	<u>17,780</u>	<u>3,132,471</u>	<u>3,035,344</u>	<u>(245,128)</u>	<u>2,790,216</u>
Expenses							
Program services	2,490,810	-	-	2,490,810	1,916,595	-	1,916,595
Supporting services							
Management and general	221,686	-	-	221,686	167,452	-	167,452
Fundraising	511,654	-	-	511,654	401,516	-	401,516
Total expenses	<u>3,224,150</u>	<u>-</u>	<u>-</u>	<u>3,224,150</u>	<u>2,485,563</u>	<u>-</u>	<u>2,485,563</u>
Other income (expenses)							
Miscellaneous income (expenses)	(4,403)	-	-	(4,403)	2,237	-	2,237
Interest expense	(5,896)	-	-	(5,896)	(3,229)	-	(3,229)
Impairment charge	-	-	-	-	(272,262)	-	(272,262)
Gain (loss) on disposal of equipment	899	-	-	899	(626)	-	(626)
Total other income (expenses)	<u>(9,400)</u>	<u>-</u>	<u>-</u>	<u>(9,400)</u>	<u>(273,880)</u>	<u>-</u>	<u>(273,880)</u>
CHANGE IN NET ASSETS	<u>(141,953)</u>	<u>23,094</u>	<u>17,780</u>	<u>(101,079)</u>	<u>275,901</u>	<u>(245,128)</u>	<u>30,773</u>
NET ASSETS AT BEGINNING OF YEAR	<u>2,864,570</u>	<u>344,784</u>	<u>-</u>	<u>3,209,354</u>	<u>2,588,669</u>	<u>589,912</u>	<u>3,178,581</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,722,617</u>	<u>\$ 367,878</u>	<u>\$ 17,780</u>	<u>\$ 3,108,275</u>	<u>\$ 2,864,570</u>	<u>\$ 344,784</u>	<u>\$ 3,209,354</u>

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, 2016 AND 2015

	2016				2015			
	Supporting Services			Totals	Supporting Services			Totals
	Program Services	Management and General	Fund-raising		Program Services	Management and General	Fund-raising	
Compensation and related expenses:								
Wages	\$ 1,854,639	\$ 142,665	\$ 380,438	\$ 2,377,742	\$ 1,387,079	\$ 106,698	\$ 284,529	\$ 1,778,306
Payroll taxes	140,284	10,791	28,776	179,851	104,505	8,039	21,437	133,981
Employee benefits	147,348	11,334	30,226	188,908	91,960	7,074	18,864	117,898
Total	<u>2,142,271</u>	<u>164,790</u>	<u>439,440</u>	<u>2,746,501</u>	<u>1,583,544</u>	<u>121,811</u>	<u>324,830</u>	<u>2,030,185</u>
Professional fees	-	29,609	-	29,609	-	19,637	-	19,637
Depreciation and amortization	103,292	7,946	21,187	132,425	84,242	6,480	17,280	108,002
Bank charges	8,010	616	1,643	10,269	6,545	503	1,343	8,391
Travel, meals and entertainment	5,046	388	1,035	6,469	3,745	288	768	4,801
Telephone and internet	16,380	1,260	3,360	21,000	15,123	1,163	3,102	19,388
Postage	3,086	237	634	3,957	5,119	394	1,050	6,563
Consulting	1,250	-	-	1,250	2,500	-	-	2,500
Supplies	60,868	4,682	12,486	78,036	83,239	6,403	17,075	106,717
Repairs and maintenance	32,298	2,484	6,626	41,408	26,174	2,013	5,369	33,556
Family support	22,563	-	-	22,563	28,014	-	-	28,014
Insurance	38,773	2,983	7,953	49,709	33,474	2,575	6,867	42,916
Conferences and events	-	-	2,494	2,494	-	-	2,952	2,952
Website maintenance	-	-	1,209	1,209	-	-	5,032	5,032
Subscriptions	23,335	1,795	4,787	29,917	14,016	1,078	2,875	17,969
Marketing	-	-	3,461	3,461	-	-	6,735	6,735
Real estate taxes	-	2,893	-	2,893	-	2,767	-	2,767
Lease expense	7,605	-	-	7,605	450	-	-	450
Licenses, registrations and taxes	711	55	145	911	3,193	246	654	4,093
Uniforms	5,251	404	1,077	6,732	3,618	278	743	4,639
Other expense	499	38	103	640	112	9	22	143
Utilities	19,572	1,506	4,014	25,092	23,487	1,807	4,819	30,113
Total functional expenses	<u>\$ 2,490,810</u>	<u>\$ 221,686</u>	<u>\$ 511,654</u>	<u>\$ 3,224,150</u>	<u>\$ 1,916,595</u>	<u>\$ 167,452</u>	<u>\$ 401,516</u>	<u>\$ 2,485,563</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, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (101,079)	\$ 30,773
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	132,425	108,002
Impairment charge	-	272,262
Unrealized (gain) loss on investments	1,995	(3,933)
Realized gain on investments	-	(1,439)
Non-cash donation of investments	(10,430)	-
Non-cash donation of property and equipment	-	(72,436)
Loss (gain) on disposal of equipment	(899)	626
(Increase) decrease in operating assets:		
Accounts receivable, net	(16,938)	(28,954)
Promises to give, net	22,296	(18,222)
Prepaid expenses and other	5,073	(7,939)
Increase (decrease) in operating liabilities:		
Accounts payable	(16,773)	8,961
Accrued expenses	96,691	27,411
Security deposits	-	250
Deferred revenue	(1,183)	(14,944)
Contributions restricted for long-term purposes:		
Cash contributions	(17,780)	-
Net cash provided by operating activities	93,398	300,418
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(14,992)	(4,420)
Proceeds from sale of investments	-	92,188
Proceeds from sale of equipment	2,800	-
Purchase of property and equipment	(70,157)	(742,035)
Net cash used for investing activities	(82,349)	(654,267)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	-	149,500
Principal payments on note payable	(7,845)	(15,641)
Collection of endowment fund support	17,780	-
Net cash provided by financing activities	9,935	133,859
Net increase (decrease) in cash and equivalents	20,984	(219,990)
Beginning cash and equivalents	590,950	810,940
Less permanently restricted cash	(15,780)	-
Ending cash and equivalents	\$ 596,154	\$ 590,950

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

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Nature of Activities

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

Principles of Consolidation

The accompanying 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 Organizations*. Accordingly, the Organization reports information regarding its consolidated financial position and activities according to the three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for the operating objectives of the Organization.

Temporarily restricted net assets consist of donor restricted contributions and grants. Amounts restricted by donors for a specific purpose are deemed to be earned and reported as temporarily restricted revenue, when received, and such unexpended amounts are reported as temporarily restricted net assets at year-end. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as "net assets released from restrictions".

Permanently restricted net assets consist of donor restricted contributions, which are required to be held in perpetuity. Income from assets held is available for either general operations or specific purposes, in accordance with donor stipulations. Permanently restricted net assets as of December 31, 2016 and 2015 totaled \$17,780 and \$-0-.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenue and other support and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Cash and Equivalents

Cash and equivalents include cash and short-term investments with an initial maturity date of three months or less. Cash and equivalents as of December 31, 2016 that were permanently restricted by donors for endowment purposes was \$15,780. There were no cash and equivalents permanently restricted by donors as of December 31, 2015.

Investments

The Organization follows the Not-For-Profit Entities subtopic and Revenue Recognition subtopic of the FASB ASC with respect to investments. Under this subtopic, investment in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated statements of financial position.

The Fair Value Measurements and Disclosures topic of FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation technique used to measure fair value. This hierarchy consists of three levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority.

The Organization uses appropriate valuation techniques based on available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs would be used only when Level 1 or level 2 inputs were not available.

Unrealized gains and losses are included in the change in unrestricted net assets.

Accounts Receivable, Net

Accounts receivable, net consist of services provided to be paid by either the family or insurance companies. The accounts receivable, net are stated at the amount management expects to collect from balances outstanding at year-end. Accounts with balances greater than 30 days old are considered past due receivable accounts. The Organization does not charge interest or a finance charge on past due receivable accounts. The amounts expected to be collected from the insurance companies is reduced due to contractual obligations with the insurance companies. The Organization has recorded a contractual allowance to net against the accounts receivable balances for the estimated contractual reduction of insurance claims. The estimated allowance for uncollectible accounts receivable is based on management's judgment of such factors as prior collection history and nature of activity.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Promises to Give, Net

Promises to give consist of contributions due in less than one year are recorded at their realizable value upon receipt. An allowance for doubtful collectability is provided based upon management's judgment, including such factors as prior collection history, type of contribution and nature of fund-raising activity. As of December 31, 2016 and 2015 management has estimated the allowance for doubtful collectability to be \$-0-.

Property and Equipment

The Organization capitalizes all property and equipment expenditures with a cost of \$250 or more and having estimated useful lives of more than one year. Property and equipment are recorded at cost or, for donated items, at fair value as of the date received. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense when incurred.

When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the consolidated statement of activities for the respective period. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets as follows:

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

Contributions of long-lived assets or contributions restricted for acquisition of long-lived assets are reported as increases in temporarily restricted net assets. When restrictions are considered met, an appropriate amount is reclassified to unrestricted net assets. The useful lives of the long-lived assets are calculated based on the organization's depreciation policy.

Contributions

Contributions, including unconditional promises to give, are recognized as revenue 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 are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization or discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

The Organization receives unconditional promises to give on-line. Investors are requested to denote the number of payments, schedule of payments and date of the last payment ("end dates") when submitting their unconditional promise to give. As of December 31, 2016 and 2015, the Organization had 21 and 17 investors, respectively, that have promised to give on a weekly or monthly basis with end dates through December 2017.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Contributions (continued)

The on-line unconditional promises to give are stated at the amount management expects to collect from balances outstanding at year-end. The estimated allowance for uncollectible on-line unconditional promises to give is based on management's judgment of such factors as prior collection history and length of the pledge period. Management has elected to record an allowance for any on-line unconditional promises to give that are to be paid in more than one year from the date of the consolidated statement of financial position. As of December 31, 2016 and 2015, the Organization had outstanding on-line unconditional promises to give of \$7,794 of which \$-0- is due after December 31, 2017. As of December 31, 2015, The Organization had outstanding on-line unconditional promises to give of \$24,700 of which \$15,435 was for collections after December 31, 2016. Therefore, as of December 31, 2016 and 2015, on-line unconditional promises to give recorded on the consolidated statements of financial position totaled \$7,794 and \$9,265, respectively.

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

Revenue Recognition of Patient Fees

The Organization offers family resources, outpatient rehabilitation services and professional nursing services for children with special needs. The Organization recognizes revenue on patient fees upon the date of service.

Deferred Revenue

The Organization each year organizes a Special Kids Race as a fundraiser for the Organization. Runners in the race will submit their registration fee for the Special Kids Race before the day of the race. Deferred revenue includes race registration fees received before the race. As of December 31, 2016 and 2015 the Organization has received \$23,881 and \$25,064, 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 2013, and to state tax authorities for years before 2011.

The Organization has evaluated its tax positions for all open tax years. Based on the evaluation of the Organization tax positions, management believes all tax positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain positions has been recorded for the years ended December 31, 2016 and 2015.

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Reclassifications

Certain reclassifications have been made to the presentation of 2015 amounts so they are consistent with 2016.

NOTE B – INVESTMENTS

Investments are stated at fair value and are summarized as follows as of December 31, 2016 and 2015:

	2016		2015	
	Cost	Value	Cost	Value
Equity securities	\$ 19,150	\$ 28,166	\$ 8,552	\$ 19,873
Endowment	<u>14,824</u>	<u>15,134</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 33,974</u>	<u>\$ 43,300</u>	<u>\$ 8,552</u>	<u>\$ 19,873</u>

For donated investments, cost is determined to be the fair value at the date of gift. During the years ended December 31, 2016 and 2015 the Organization received \$10,430 and \$-0-, respectively, in donated investments. As of December 31, 2016 and 2015, the unrealized gain on these investments totaled \$9,326 and \$11,321, respectively. During the years ended December 31, 2016 and 2015 the change in the unrealized gain (loss) on investments totaled (\$1,995) and \$3,933, respectively. Investment income net of expenses for the years ended December 31, 2016 and 2015 totaled \$203 and \$196, 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.

During the year ended December 31, 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
DECEMBER 31, 2016 AND 2015

NOTE B – 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 permanently restricted net assets (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 permanently restricted net assets is classified as temporarily restricted net assets 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, 2016 the endowment included net assets designated by the board for endowment and permanently restricted funds received from investors for endowment. The activity in the endowment during the year ended December 31, 2016 and the balance as of December 31, 2016 are as follows:

	Board Designated for Endowment	Permanently Restricted	Total Endowment
Balance as of January 1, 2016	\$ -	\$ -	\$ -
Contributions	12,811	17,780	30,591
Realized gains (losses)	-	-	-
Unrealized gains (losses) related to investments still held at the reporting date	310	-	310
Investment income	35	-	35
Investment fees	(22)	-	(22)
Balance as of December 31, 2016	<u>\$ 13,134</u>	<u>\$ 17,780</u>	<u>\$ 30,914</u>

SPECIAL KIDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE B – INVESTMENTS (CONTINUED)

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.

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 set 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 year ending December 31, 2016 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, 2016 and 2015 are determined as follows:

	Fair Value Measurements at December 31, 2016			Totals
	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	
Equity securities	\$ 28,166	\$ -	\$ -	\$ 28,166
Endowment	-	-	15,134	15,134
Totals	\$ 28,166	\$ -	\$ 15,134	\$ 43,300

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NOTE B – INVESTMENTS (CONTINUED)

	Fair Value Measurements at December 31, 2015			Totals
	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	
Equity securities	\$ 19,873	\$ -	\$ -	\$ 19,873
Endowment	-	-	-	-
Totals	\$ 19,873	\$ -	\$ -	\$ 19,873

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, 2016:

Balance, beginning of year	\$	-
Contributions		14,811
Realized gains (losses)		-
Unrealized gains (losses) related to investments still held at the reporting date		310
Investment income		35
Investment fees		(22)
Balance, end of year	\$	15,134

NOTE C – ACCOUNTS RECEIVABLE, NET

Accounts receivables, net are composed of the following as of December 31, 2016 and 2015:

	2016	2015
Accounts receivable	\$ 203,709	\$ 170,427
Allowance for contractual adjustments	(84,599)	(65,404)
Allowance for uncollectible accounts receivable	(12,029)	(12,585)
Other receivables	2,295	-
Total accounts receivable, net	\$ 109,376	\$ 92,438

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NOTE D – PROPERTY AND EQUIPMENT, NET

Property and equipment, net are composed of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 358,340	\$ 338,590
Building and improvements	2,194,565	2,171,189
Furniture and equipment	498,863	488,788
Leasehold improvements	13,383	-
Software	49,416	49,416
Construction in process	<u>-</u>	<u>904</u>
	3,114,567	3,048,887
Less: Accumulated depreciation and amortization	<u>(524,266)</u>	<u>(394,417)</u>
Total property and equipment, net	<u>\$ 2,590,301</u>	<u>\$ 2,654,470</u>

For the years ended December 31, 2016 and 2015, depreciation and amortization totaled \$132,425 and \$108,002.

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

NOTE E – ACCRUED EXPENSES

Accrued expenses are composed of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Accrued payroll	\$ 45,045	\$ -
Payroll related liabilities	673	791
Accrued paid time off	43,283	19,509
Accrued employee bonuses	-	21,200
Patient insurance overpayment	<u>49,190</u>	<u>-</u>
Total accrued expenses	<u>\$ 138,191</u>	<u>\$ 41,500</u>

SPECIAL KIDS, INC.
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NOTE F – UNRESTRICTED NET ASSETS

Unrestricted net assets, including Board of Directors designated net assets, as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Designated net assets:		
Building fund	\$ 29,813	\$ 29,813
Macedonia Fund	74,748	74,919
Endowment fund	13,134	12,791
HALO Fund	<u>-</u>	<u>1,297</u>
Total designated net assets	117,695	118,820
Undesignated assets	<u>2,604,922</u>	<u>2,745,750</u>
Total unrestricted net assets	<u>\$ 2,722,617</u>	<u>\$ 2,864,570</u>

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 G – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the purpose of providing scholarships to clients, and operating specific programs, and construction and renovation of the facilities. As of December 31, 2016 and 2015 temporarily restricted support received totaled \$141,864 and \$146,127, respectively.

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specifically made by donors. These restrictions were met by incurring costs for the construction of the new building and purchase of furniture, fixtures and equipment for use in the new building, through providing scholarships for children who receive services from Special Kids, Inc. by operating specific programs for the children, and by operating Camp Ability. During the years ended December 31, 2016 and 2015, net assets released from restriction totaled \$118,770 and \$391,255, respectively.

SPECIAL KIDS, INC.
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NOTE G – TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

The temporarily restricted net assets as of December 31, 2016 and 2015 are as follows:

	2016	2015
Facilities construction and renovation	\$ 223,785	\$ 223,785
Equipment	692	4,621
Rehabilitation program scholarships	3,029	36,014
Camp Ability	65,630	57,000
Family services	1,000	1,000
Speech and group feeding therapy program	52,972	116
Go Baby Go	3,195	3,195
Tiny Diners	3,000	2,398
Software for Development team	6,000	-
Other projects	3,000	756
HALO fund	<u>5,575</u>	<u>15,899</u>
Total temporarily restricted net assets	<u>\$ 367,878</u>	<u>\$ 344,784</u>

NOTE H – NOTE PAYABLE

During the year ended December 31, 2015, the Organization entered into a note payable with a bank bearing an interest rate of 4.45% with monthly principal and interest payments of \$1,145 through June, 2019 with a balloon payment due at that time. The note payable is collateralized by certain real estate. The note payable agreement allows the bank to demand the full principal payment prior to June 2019. Therefore, the note payable balance has been recorded as a current liability on the consolidated statements of financial position. The outstanding balance of the note payable as of December 31, 2016 and 2015 was \$126,014 and \$133,859, respectively.

NOTE I - RELATED PARTY TRANSACTIONS

The Organization provided various patient services for the children of directors and employees throughout the years ended December 31, 2016 and 2015. Services provided for the children of directors and employees during the year ended December 31, 2016 totaled \$-0- and \$47,774 respectively. Services provided for the children of directors and employees during the year ended December 31, 2015 totaled \$-0- and \$61,110, respectively.

Accounts receivable, net at December 31, 2016 includes \$-0- and \$4,434 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, 2015 includes \$-0- and \$2,121 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.

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NOTE J - CONCENTRATION OF RISK

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

At times throughout the year, the Organization may maintain cash balances in certain accounts in excess of the Federal Deposit Insurance Corporation ("FDIC") limit of \$250,000 for substantially all depository accounts. As of both December 31, 2016 and 2015, the Organization had no funds in excess of the FDIC limits.

NOTE K - CASH FLOW INFORMATION

During the years ended December 31, 2016 and 2015, net cash provided by operating activities included cash payments of interest totaling \$5,896 and \$3,229, respectively. There were no cash payments for income taxes during both December 31, 2016 and 2015.

During the years ended December 31, 2016 and 2015, non-cash investing activities excluded from the statements of cash flows include in-kind donations of property and equipment totaling \$-0- and \$72,436, respectively, and investments of \$10,430 and \$-0-, respectively.

NOTE L - SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 18, 2017, 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.