HIGH HOPES, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

AUGUST 31, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
High Hopes, Inc.
Franklin, Tennessee

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of High Hopes, Inc. (the "Organization"), which comprise the statements of financial position as of August 31, 2019 and 2018, the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 financial statements.

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

KraftCPAs PLLC • Certified Public Accountants and Consultants
555 Great Circle Road • Nashville, TN 37228 • phone: 615-242-7351 • fax: 615-782-4271 • kraftcpas.com

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of High Hopes, Inc. as of August 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kraft CPAs PLLC

Nashville, Tennessee
January 17, 2020

HIGH HOPES, INC.

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 116,904	$ 101,613
Accounts receivable, net	301,633	240,569
Unconditional promises to give, net	847,551	1,232,288
Property and equipment, net	9,188,073	8,509,332
TOTAL ASSETS	$ 10,454,161	$ 10,083,802
LIABILITIES AND NET ASSETS		
Line of credit	$ 191,587	$ 70,987
Cash collected in advance of tuition revenue earnings	112,347	72,549
Accounts payable	127,630	85,669
Accrued expenses	86,554	61,571
Obligation under capital lease	13,857	18,157
Note payable	4,925,454	4,290,993
TOTAL LIABILITIES	5,457,429	4,599,926
NET ASSETS		
Without donor restrictions	4,071,827	4,213,566
With donor restrictions	924,905	1,270,310
TOTAL NET ASSETS	4,996,732	5,483,876
TOTAL LIABILITIES AND NET ASSETS	$ 10,454,161	$ 10,083,802

See accompanying notes to financial statements.

HIGH HOPES, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	2019			2018		
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	Total	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	Total
REVENUES AND SUPPORT						
Contributions:						
United Way	$ 14,619	$ 42,083	$ 56,702	$ 13,029	$ 41,793	$ 54,822
Capital campaign	62,341	-	62,341	307,568	68,041	375,609
In-kind contributions	191,903	-	191,903	174,134	-	174,134
Other	154,761	84,178	238,939	81,678	62,407	144,085
Therapy fees, net	1,587,823	-	1,587,823	1,580,985	-	1,580,985
Tuition and fees, net	1,292,983	-	1,292,983	971,995	-	971,995
Special events	439,639	-	439,639	357,129	-	357,129
Other income	317	-	317	777	-	777
Net assets released due to satisfaction of restrictions	471,666	(471,666)	-	701,881	(701,881)	-
TOTAL REVENUE AND SUPPORT	4,216,052	(345,405)	3,870,647	4,189,176	(529,640)	3,659,536
EXPENSES:						
Program services:						
Education	1,436,118	-	1,436,118	1,077,679	-	1,077,679
Therapy	2,271,599	-	2,271,599	1,814,854	-	1,814,854
Total program services	3,707,717	-	3,707,717	2,892,533	-	2,892,533
Supporting services:						
Management and general	432,521	-	432,521	305,163	-	305,163
Fundraising	217,553	-	217,553	251,999	-	251,999
Total supporting services	650,074	-	650,074	557,162	-	557,162
TOTAL EXPENSES	4,357,791	-	4,357,791	3,449,695	-	3,449,695
CHANGE IN NET ASSETS	(141,739)	(345,405)	(487,144)	739,481	(529,640)	209,841
NET ASSETS - BEGINNING OF YEAR	4,213,566	1,270,310	5,483,876	3,474,085	1,799,950	5,274,035
NET ASSETS - END OF YEAR	$ 4,071,827	$ 924,905	$ 4,996,732	$ 4,213,566	$ 1,270,310	$ 5,483,876

See accompanying notes to financial statements.

HIGH HOPES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (487,144)	$ 209,841
Adjustments to reconcile change in net assets		
to net cash provided by operating activities:		
Depreciation	245,360	103,655
Contributions for capital campaign	(45,078)	(82,350)
Change in discounts on unconditional promises to give	(17,263)	9,772
Provision for doubtful accounts	93,071	43,783
(Increase) decrease in:		
Accounts receivable	(154,135)	(50,208)
Unconditional promises to give	(290)	(23,608)
Increase (decrease) in:		
Tuition collected in advance of earnings	39,798	(4,382)
Accounts payable	41,961	25,399
Accrued expenses	24,983	(7,750)
NET ADJUSTMENTS	228,407	14,311
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(258,737)	224,152
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(89,640)	(883,229)
NET CASH USED IN INVESTING ACTIVITIES	(89,640)	(883,229)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections for capital campaign	447,368	586,622
Net borrowings on revolving line of credit	120,600	70,987
Payments on capital leases	(4,300)	(2,800)
Payments on note payable	(200,000)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	363,668	654,809
NET INCREASE (DECREASE) IN CASH	15,291	(4,268)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	101,613	105,881
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 116,904	$ 101,613
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 237,357	$ 7,949
Interest capitalized	$ 17,031	$ 63,432
NONCASH ACTIVITIES		
Building additions paid by construction loan proceeds and accounts payable	$ 834,461	$ 3,778,073
Purchase of property and equipment under a capital lease obligation	$ -	$ 12,194

See accompanying notes to financial statements.

HIGH HOPES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2019

	Program Services			Supporting Services			
	Education	Therapy	Total Program Services	Management and General	Fundraising	Total Support Services	Total Functional Expenses
Salaries	$ 910,965	$ 1,259,363	$ 2,170,328	$ 270,733	$ 104,399	$ 375,132	$ 2,545,460
Payroll taxes	67,000	92,623	159,623	19,912	7,678	27,590	187,213
Employee benefits	46,739	64,615	111,354	13,891	5,356	19,247	130,601
Total salaries and related expenses	1,024,704	1,416,601	2,441,305	304,536	117,433	421,969	2,863,274
Advertising	1,318	1,822	3,140	458	151	609	3,749
Contractual services	67,822	290,901	358,723	16,956	-	16,956	375,679
Equipment and maintenance	37,703	52,123	89,826	13,092	4,321	17,413	107,239
Insurance	11,665	16,127	27,792	4,051	1,337	5,388	33,180
Interest	84,071	116,224	200,295	29,193	9,636	38,829	239,124
Occupancy	43,125	59,618	102,743	14,975	4,942	19,917	122,660
Other	9,773	13,510	23,283	3,393	1,120	4,513	27,796
Printing and postage	2,351	3,250	5,601	816	270	1,086	6,687
Professional services	23,916	33,062	56,978	8,305	2,741	11,046	68,024
Special events	-	-	-	-	64,913	64,913	64,913
Supplies	35,161	31,498	66,659	1,255	-	1,255	67,914
Telephone	7,005	9,684	16,689	2,432	803	3,235	19,924
Training	750	15,343	16,093	3,104	-	3,104	19,197
Total expenses before depreciation and bad debts	1,349,364	2,059,763	3,409,127	402,566	207,667	610,233	4,019,360
Depreciation	86,264	119,255	205,519	29,955	9,886	39,841	245,360
Bad debts	490	92,581	93,071	-	-	-	93,071
TOTAL EXPENSES	$ 1,436,118	$ 2,271,599	$ 3,707,717	$ 432,521	$ 217,553	$ 650,074	$ 4,357,791

See accompanying notes to financial statements.

HIGH HOPES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2018

	Program Services			Supporting Services			
	Education	Management and Therapy	Total Program Services	Management and General	Fundraising	Total Support Services	Total Functional Expenses
Salaries	$ 756,763	$ 1,086,133	$ 1,842,896	$ 216,075	$ 110,299	$ 326,374	$ 2,169,270
Payroll taxes	56,623	81,267	137,890	16,167	8,253	24,420	162,310
Employee benefits	36,613	52,548	89,161	10,455	5,336	15,791	104,952
Total salaries and related expenses	849,999	1,219,948	2,069,947	242,697	123,888	366,585	2,436,532
Advertising	5,232	7,509	12,741	1,494	763	2,257	14,998
Contractual services	62,986	329,563	392,549	15,746	-	15,746	408,295
Equipment and maintenance	40,500	58,128	98,628	11,564	5,903	17,467	116,095
Insurance	12,744	18,290	31,034	3,639	1,857	5,496	36,530
Interest	4,735	6,796	11,531	1,352	690	2,042	13,573
Occupancy	4,677	6,712	11,389	1,335	682	2,017	13,406
Other	5,103	7,324	12,427	1,457	744	2,201	14,628
Printing and postage	1,762	2,533	4,295	504	258	762	5,057
Professional services	14,870	21,341	36,211	4,245	2,167	6,412	42,623
Special events	-	-	-	-	83,718	83,718	83,718
Capital campaign	-	-	-	-	24,484	24,484	24,484
Supplies	24,361	25,135	49,496	1,330	-	1,330	50,826
Telephone	10,803	15,504	26,307	3,084	1,575	4,659	30,966
Training	-	4,135	4,135	6,391	-	6,391	10,526
Total expenses before depreciation and bad debts	1,037,772	1,722,918	2,760,690	294,838	246,729	541,567	3,302,257
Depreciation	36,161	51,899	88,060	10,325	5,270	15,595	103,655
Bad debts	3,746	40,037	43,783	-	-	-	43,783
TOTAL EXPENSES	$ 1,077,679	$ 1,814,854	$ 2,892,533	$ 305,163	$ 251,999	$ 557,162	$ 3,449,695

See accompanying notes to financial statements.

NOTE 1 - GENERAL

High Hopes, Inc. (the "Organization") was organized in 1984. The Organization, located in Franklin, Tennessee, is an early intervention preschool and pediatric therapy center which embraces the whole child with tools for learning and skills for life.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Organization's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. The Organization did not have any net assets with donor restrictions that are perpetual in nature as of August 31, 2019 or 2018.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Contributions and Support

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as net assets with donor restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash consists principally of cash on hand, demand deposits with banks and money market funds.

Accounts Receivable and Revenue Recognition

The Organization reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. The Organization has agreements with third-party payors that provide for payments at amounts different from its established rates. In valuing accounts receivables, management estimates contractual discounts from third party payors based on contractual agreements with the payors and fee schedules provided by the payors. Additionally, management estimates an allowance for bad debts based on the age of the account and historical collection experience. It is not the policy of the Organization to place a patient on non-accrual basis. Patient accounts receivable have been adjusted to fair value via an allowance for doubtful accounts. The Organization estimates the allowance for doubtful accounts based on a percentage of aged patient account balances and third-party payor receivables deemed to be uncollectible after all claims submission attempts have been exhausted or upon the expiration of the statutory contract terms with each payor. Accounts determined to be uncollectible are charged off against the allowance in the period of determination. Subsequent recoveries of previously charged off accounts are credited to the allowance in the period received.

The Organization, like other health care providers, may be subject to investigations, regulatory action, lawsuits, and claims arising out of the conduct of its business, including the interpretation of laws and regulations governing the Medicaid program and other third-party payor agreements. At this time, no specific alleged violations, claims, or assessments are pending. Management intends to fully cooperate with any governmental agencies' requests for information. Noncompliance with laws and regulations can make the Organization subject to regulatory action, including fines, penalties, and exclusion from the Medicaid program.

Net tuition and other service fees are recorded at the estimated net realizable amounts from families and others for services rendered. An allowance for doubtful accounts is based on management's knowledge of its students, historical loss experience, and economic conditions. Tuition and other service fees are recorded at the Organization's established rates.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give (continued)

At August 31, 2019 and 2018, the discount rate was 4.78%. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Pledges deemed to be uncollectible are charged off against the allowance in the period of determination.

Property and Equipment

Property and equipment are reported at cost at the date of purchase or at estimated fair value at date of gift to the Organization. The Organization's policy is to capitalize purchases with a cost of $1,000 or more and an estimated useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets, which range from three to forty years for property and equipment.

Donated Materials and Services

Donated materials and equipment, if any, are reflected as contributions in the accompanying statements at their estimated values at the date of receipt. Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Additionally, a number of unpaid volunteers have made significant contributions of their time to assist in fund-raising and special projects. However, these services do not meet the requirements above and have not been recorded.

Advertising Costs

Advertising costs, which also include marketing and development, are expensed as incurred. Advertising costs were $3,749 and $14,998 for the years ended August 31, 2019 and 2018, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services - Functional Allocation

The following program and supporting services are included in the accompanying financial statements:

Program Services

Education - The inclusive preschool at High Hopes offers quality academic programming as well as superior preschool and kindergarten care for children, ages six weeks through kindergarten. With highly qualified teachers in all classrooms, children gain skills in all areas ranging from academic subjects to developmentally-appropriate social skills with an inclusive atmosphere of both typically developing children and those with special needs. Students also learn life lessons of acceptance, tolerance, appreciation, and true friendship.

Therapy - High Hopes' pediatric therapy clinic offers a wide variety of therapeutic services to children and youth, ages six weeks through 21 years, including physical, occupational, speech, feeding, and listening therapies with a focus on early, intensive intervention. A team of highly experienced therapists give each child specialized, one on one care, empowering them to emerge into adulthood with greater skills to become independent citizens in our community. Additionally, High Hopes has implemented a program entitled family support services. It coordinates much needed support and resources for families, caregivers, special needs groups, teachers and therapists in order to better serve the interests of families and children with special needs in Middle Tennessee.

Supporting Services

Management and General - includes management and general costs that relate to the overall direction of the Organization. These expenses are not identifiable with a particular program, but are indispensable to the conduct of those activities and are essential to the Organization. Specific activities include organization oversight, program strategy, business management, recordkeeping, budgeting, financing and other administrative activities.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitation and creation and distribution of fundraising materials.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management. The expenses that are allocated include salaries, payroll taxes, employee benefits, advertising, contractual services, equipment and maintenance, insurance, interest, occupancy, other, printing and postage, professional services, telephone, and depreciation, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization files a U.S. Federal Form 990 for organizations exempt from income tax.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Organization’s income tax returns to determine whether the income tax positions meet a “more likely than not” standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the “more likely than not” standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform to the current year presentation. The reclassifications had no effect on prior year’s change in net assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Additionally, ASU 2016-14 requires all not-for-profit entities to present expenses by their natural and functional expense classification. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Recent Authoritative Accounting Guidance

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. Management has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In October 2019, the FASB voted to delay the effective date of the new standard to fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The adoption of this guidance is not expected to have a material impact on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. As the Organization is a resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018, including interim periods. Management is currently evaluating the impact of the adoption of this guidance on its financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between August 31, 2019 and January 17, 2020, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - LIQUIDITY

The Organization's financial assets available within one year of August 31, 2019 are as follows:

Cash and cash equivalents	$ 116,904
Accounts receivable, net	301,633
Unconditional promises to give, net	847,551
Total financial assets	1,266,088
Less amounts not available to be used within one year:	
Unconditional promises to give, due after one year, net	(400,126)
Amounts received for specific purposes	(85,645)
	(485,771)
Financial assets available to meet general expenditures within one year	$ 780,317

Additionally, the Organization has the ability to draw from a line of credit to meet cash flow needs.

NOTE 4 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash, unconditional promises to give and patients accounts receivable. The Organization grants credit without collateral to its patients, most of who are insured under third-party payor arrangements.

NOTE 4 - CONCENTRATION OF CREDIT RISK (CONTINUED)

Cash Deposits

The Organization maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. The Organization's cash balances may, at times, exceed statutory limits. The Organization has not experienced any losses in such accounts and management considers this to be a normal business risk.

Promises to Give

Approximately 90% and 72% of the Organization's promises to give were from four and three donors at August 31, 2019 and 2018, respectively.

Payor Mix of Patient Accounts

Concentration of credit risk with respect to accounts receivable is mitigated by the diversity of the Organization's payors. The following table summarizes the approximate percent of gross patient accounts receivable from all payors as of August 31, 2019 and 2018:

	2019	2018
Commercial	74.74%	72.83%
Medicaid	7.94%	10.53%
Self pay	1.75%	3.47%
Other	15.57%	13.17%
	100.00%	100.00%

The patient service revenue payor mix for the year ended August 31, 2019 and 2018 is as follows:

	2019	2018
Commercial	75.46%	73.33%
Medicaid	13.42%	16.12%
Self pay	2.08%	2.73%
Other	9.04%	7.82%
Total	100.00%	100.00%

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable are from families and third-party payers and are reported net of estimated contractual adjustments and allowances for bad debts. Third-party payers consist primarily of commercial insurance carriers. Accounts receivable consisted of the following at August 31, 2019 and 2018:

	2019	2018
Tuition	$ 8,921	$ 1,070
Therapy services	629,103	444,893
	638,024	445,963
Less: allowance for contractual adjustments	(216,817)	(169,876)
Less: allowance for doubtful accounts	(119,574)	(35,518)
	$ 301,633	$ 240,569

NOTE 6 - PROMISES TO GIVE

Promises to give consisted of the following at August 31, 2019 and 2018:

	2019	2018
Due in less than one year	$ 458,425	$ 449,614
Due in one to five years	519,165	929,976
	977,590	1,379,590
Less: allowance for doubtful accounts	(11,000)	(11,000)
Less: discount to present value	(119,039)	(136,302)
	$ 847,551	$ 1,232,288

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at August 31, 2019 and 2018:

	2019	2018
Land	$ 1,066,222	$ 1,066,222
Buildings	8,527,104	3,014,176
Furniture and fixtures	251,561	167,353
Computer and software	41,605	41,605
Equipment	29,561	17,205
Capital leases	24,666	24,666
Construction in progress	-	4,685,391
	9,940,719	9,016,618
Less: accumulated depreciation	(752,646)	(507,286)
	$ 9,188,073	$ 8,509,332

Construction in progress was completed during the year ended August 31, 2019. Interest capitalized related to the project totaled $80,463.

NOTE 8 - LINE OF CREDIT

The Organization has a line of credit with a financial institution, which bears interest at the lender's base commercial rate (5.25% and 5.0% at August 31, 2019 and 2018, respectively). The line of credit is collateralized by substantially all assets of the Organization. The maximum availability under this line of credit is $300,000. At August 31, 2019 and 2018, $191,587 and $70,987 was drawn on the line of credit. Any amounts drawn on this line of credit plus unpaid interest are due and payable on February 8, 2021. Accrued and unpaid interest is due and payable monthly.

Subsequent to year end, the Organization increased the maximum availability under the line of credit to $400,000. No other terms were changed with this amendment.

NOTE 9 - NOTE PAYABLE

In 2017, the Organization obtained a construction loan related to the construction of additional classroom and therapy treatment space with a maximum borrowing availability of $4,975,000. Interest-only payments, computed based on the amount drawn on the construction loan at a fixed annual interest rate of 4.78%, began on September 3, 2017. In December 2017, the loan document was amended to increase the maximum borrowing rate to $5,500,000. Thirty-six interest-only payments, computed based on the amount drawn on the construction loan at a fixed annual interest rate of 4.78%, began on January 3, 2018. After thirty-six interest-only payments, a principal payment will be made to reduce the outstanding balance to $2,000,000. Then, forty-eight monthly consecutive principal and interest payments will begin on December 3, 2020. This note matures on December 3, 2024, at which time the remaining unpaid principal balance and accrued interest will be due. The amount drawn on the construction loan at August 31, 2019 and 2018 was $4,925,454 and $4,290,993, respectively.

The construction loan payable is collateralized by a deed of trust on the Organization's real property, which has a net book value of $7,962,638.

Future maturities of long-term debt based on the outstanding balance at August 31, 2019 are as follows:

Year ending August 31,	
2021	$ 2,966,062
2022	43,941
2023	46,088
2024	48,340
Thereafter	1,821,023
	$ 4,925,454

NOTE 10 - CAPITAL LEASES

The Organization has capital leases for certain office equipment. The related assets were included in the accompanying statements of financial position under property and equipment. Depreciation of the assets under capital leases is included in depreciation expense.

Future minimum lease payments on the non-cancelable capital leases are as follows:

Year ending August 31,	
2020	$ 4,032
2021	4,032
2022	4,032
2023	2,646
2024	276
Total minimum lease payments payable	15,018
Less: amount representing interest	(1,161)
Present value of net minimum lease payments	$ 13,857

NOTE 11 - NET ASSETS

Net assets with donor restrictions consisted of the following at August 31, 2019 and 2018:

	2019	2018
Multi-year contributions, net	$ 839,260	$ 1,219,308
Scholarships	37,972	24,837
Therapy grants	19,488	16,215
Education grants	3,185	-
Fund development	25,000	9,950
	$ 924,905	$ 1,270,310

NOTE 12 - THERAPY FEES

Therapy fees consisted of the following for the year ended August 31, 2019 and 2018:

	2019	2018
Gross patient service revenue	$ 2,716,038	$ 2,631,834
Less: provisions for contractual and other adjustments	(1,128,215)	(1,050,849)
	$ 1,587,823	$ 1,580,985

NOTE 13 - TUITION AND FEES

Tuition and fees consisted of the following for the year ended August 31, 2019 and 2018:

	2019	2018
Tuition and fees	$ 1,339,302	$ 1,000,169
Less: financial aid	(46,319)	(28,174)
	$ 1,292,983	$ 971,995

NOTE 14 - DONATED SERVICES

The Organization receives donated information technology and director of finance services. Contributed services recognized amounted to $169,556 and $157,464 for the years ended August 31, 2019 and 2018, respectively, and are recorded as contributions revenue and contractual services expenses in the Statements of Activities.

NOTE 15 - EMPLOYEE BENEFITS

The Organization offers medical, dental, vision and supplemental insurance plans to all eligible full-time employees. The costs of these plans to the Organization for the years ended August 31, 2019 and 2018 was $117,156 and $91,202, respectively.

The Organization offers a defined contribution 401(k) plan, the High Hopes, Inc. 401 (k) Plan (the "Plan") to eligible employees. Eligible employees may elect to contribute a portion of their compensation to the Plan up to the maximum amount as described in Section 414 of the Internal Revenue Code. The Organization may make discretionary employer contributions, as determined by the Board of Directors. In 2019 and 2018, the Organization did not make any discretionary employer contributions to the Plan.

NOTE 16 - RELATED PARTIES

In the ordinary course of business, board members may make substantial promises to give to the Organization in support of its mission. The Organization received support from board members totaling approximately $133,000 and $57,000 during the years ended August 31, 2019 and 2018, respectively. Additionally, the Organization had outstanding promises to give from board members totaling approximately $748,000 and $1,140,000 as of August 31, 2019 and 2018, respectively.