

HIGH HOPES, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

AUGUST 31, 2020 AND 2019

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INDEPENDENT AUDITOR'S REPORT

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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, 2020 and 2019, 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 from 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.

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, 2020 and 2019, 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.

K. J. Ruff CPA PLLC

Nashville, Tennessee
January 13, 2020

HIGH HOPES, INC.

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 229,297	\$ 116,904
Accounts receivable, net	315,361	301,633
Unconditional promises to give, net	602,197	847,551
Prepaid expenses	17,117	-
Property and equipment, net	<u>8,932,604</u>	<u>9,188,073</u>
TOTAL ASSETS	<u>\$ 10,096,576</u>	<u>\$ 10,454,161</u>
<u>LIABILITIES AND NET ASSETS</u>		
Line of credit	\$ -	\$ 191,587
Cash collected in advance of tuition and special event revenue earnings	119,490	112,347
Accounts payable	43,738	127,630
Accrued expenses	82,314	86,554
Obligation under capital lease	10,346	13,857
Notes payable	<u>4,640,177</u>	<u>4,925,454</u>
TOTAL LIABILITIES	<u>4,896,065</u>	<u>5,457,429</u>
NET ASSETS		
Without donor restrictions	4,584,133	4,071,827
With donor restrictions	<u>616,378</u>	<u>924,905</u>
TOTAL NET ASSETS	<u>5,200,511</u>	<u>4,996,732</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,096,576</u>	<u>\$ 10,454,161</u>

See accompanying notes to financial statements.

HIGH HOPES, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

	2020			2019		
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	Total	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	Total
REVENUES AND SUPPORT						
Contributions:						
United Way	\$ 36,587	\$ 35,833	\$ 72,420	\$ 14,619	\$ 42,083	\$ 56,702
Capital campaign	664,244	101,000	765,244	62,341	-	62,341
In-kind contributions	179,291	-	179,291	191,903	-	191,903
Other	236,437	30,266	266,703	154,761	84,178	238,939
Therapy fees, net	1,567,997	-	1,567,997	1,587,823	-	1,587,823
Tuition and fees, net	1,372,344	-	1,372,344	1,292,983	-	1,292,983
Special events	307,547	-	307,547	439,639	-	439,639
Other income	1,482	-	1,482	317	-	317
Net assets released due to satisfaction of restrictions	475,626	(475,626)	-	471,666	(471,666)	-
TOTAL REVENUE AND SUPPORT	4,841,555	(308,527)	4,533,028	4,216,052	(345,405)	3,870,647
EXPENSES						
Program services:						
Education	1,411,523	-	1,411,523	1,436,118	-	1,436,118
Therapy	2,244,149	-	2,244,149	2,271,599	-	2,271,599
Total program services	3,655,672	-	3,655,672	3,707,717	-	3,707,717
Supporting services:						
Management and general	452,382	-	452,382	432,521	-	432,521
Fundraising	221,195	-	221,195	217,553	-	217,553
Total supporting services	673,577	-	673,577	650,074	-	650,074
TOTAL EXPENSES	4,329,249	-	4,329,249	4,357,791	-	4,357,791
CHANGE IN NET ASSETS	512,306	(308,527)	203,779	(141,739)	(345,405)	(487,144)
NET ASSETS - BEGINNING OF YEAR	4,071,827	924,905	4,996,732	4,213,566	1,270,310	5,483,876
NET ASSETS - END OF YEAR	\$ 4,584,133	\$ 616,378	\$ 5,200,511	\$ 4,071,827	\$ 924,905	\$ 4,996,732

See accompanying notes to financial statements.

HIGH HOPES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 203,779	\$ (487,144)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	255,469	245,360
Contributions for capital campaign	(681,901)	(45,078)
Change in discounts on unconditional promises to give	(83,343)	(17,263)
Provision for doubtful accounts	109,677	93,071
(Increase) decrease in:		
Prepaid expenses	(17,117)	-
Accounts receivable	(113,405)	(154,135)
Unconditional promises to give	6,250	(290)
Increase (decrease) in:		
Tuition and special event fees collected in advance of earnings	7,143	39,798
Accounts payable	(83,892)	41,961
Accrued expenses	(4,240)	24,983
NET ADJUSTMENTS	(605,359)	228,407
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(401,580)	(258,737)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(89,640)
NET CASH USED IN INVESTING ACTIVITIES	-	(89,640)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections for capital campaign	994,348	447,368
Net (repayments) borrowings on revolving line of credit	(191,587)	120,600
Repayments on capital leases	(3,511)	(4,300)
Proceeds from notes payable	689,723	-
Repayments on notes payable	(975,000)	(200,000)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	513,973	363,668
NET INCREASE IN CASH	112,393	15,291
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	116,904	101,613
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 229,297</u>	<u>\$ 116,904</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 218,063</u>	<u>\$ 237,357</u>
Interest capitalized	<u>\$ -</u>	<u>\$ 17,031</u>
NONCASH ACTIVITIES		
Building additions paid by construction loan proceeds and accounts payable	<u>\$ -</u>	<u>\$ 834,461</u>

See accompanying notes to financial statements.

HIGH HOPES, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

	2020					2019				
	Program Services		Supporting Services			Program Services		Supporting Services		
	Education	Therapy	Management and General		Totals Expenses	Education	Therapy	Management and General		Totals Expenses
			General	Fundraising				General	Fundraising	
Salaries	\$ 927,528	\$ 1,291,914	\$ 301,395	\$ 117,998	\$ 2,638,835	\$ 910,965	\$ 1,259,363	\$ 270,733	\$ 104,399	\$ 2,545,460
Payroll taxes	67,639	94,211	21,978	8,605	192,433	67,000	92,623	19,912	7,678	187,213
Employee benefits	44,116	61,448	14,336	5,612	125,512	46,739	64,615	13,891	5,356	130,601
Total salaries and related expenses	1,039,283	1,447,573	337,709	132,215	2,956,780	1,024,704	1,416,601	304,536	117,433	2,863,274
Advertising	1,105	1,539	359	140	3,143	1,318	1,822	458	151	3,749
Contractual services	71,173	270,846	20,492	-	362,511	67,822	290,901	16,956	-	375,679
Equipment and maintenance	14,022	19,531	4,556	1,784	39,893	37,703	52,123	13,092	4,321	107,239
Insurance	11,019	15,347	3,580	1,402	31,348	11,665	16,127	4,051	1,337	33,180
Interest	76,035	105,905	24,707	9,673	216,320	84,071	116,224	29,193	9,636	239,124
Occupancy	45,091	62,805	14,652	5,736	128,284	43,125	59,618	14,975	4,942	122,660
Other	10,614	14,784	3,450	1,350	30,198	9,773	13,510	3,393	1,120	27,796
Printing and postage	2,279	3,174	740	290	6,483	2,351	3,250	816	270	6,687
Professional services	21,259	29,611	6,908	2,705	60,483	23,916	33,062	8,305	2,741	68,024
Special events	-	-	-	40,528	40,528	-	-	-	64,913	64,913
Capital campaign	-	-	-	3,191	3,191	-	-	-	-	-
Supplies	18,653	38,765	1,282	-	58,700	35,161	31,498	1,255	-	67,914
Telephone	5,948	8,285	1,933	757	16,923	7,005	9,684	2,432	803	19,924
Training	2,007	4,475	2,836	-	9,318	750	15,343	3,104	-	19,197
Total expenses before depreciation and bad debts	1,318,488	2,022,640	423,204	199,771	3,964,103	1,349,364	2,059,763	402,566	207,667	4,019,360
Depreciation	89,795	125,072	29,178	11,424	255,469	86,264	119,255	29,955	9,886	245,360
Bad debts	3,240	96,437	-	10,000	109,677	490	92,581	-	-	93,071
TOTAL EXPENSES	\$ 1,411,523	\$ 2,244,149	\$ 452,382	\$ 221,195	\$ 4,329,249	\$ 1,436,118	\$ 2,271,599	\$ 432,521	\$ 217,553	\$ 4,357,791

See accompanying notes to financial statements.

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020 AND 2019

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 (“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. 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, whereby 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, 2020 or 2019.

Contributions and Support

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received. A contribution is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets exists. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until the barrier(s) in the agreement are overcome.

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support (Continued)

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 fundraising and special projects. However, these services do not meet the requirements above and have not been recorded.

Special events revenue is generated from sponsorships, ticket sales and sales of items at events held during the period and revenues are recognized when the events occur. Ticket sales revenues received prior to the fiscal year to which they apply are reported as a liability.

Cash and Cash Equivalents

Cash and cash equivalents 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. 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.

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and Revenue Recognition (Continued)

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.

At August 31, 2020 and 2019, the discount rate was 4% and 4.78%, respectively.

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.

Advertising Costs

Advertising costs, which also include marketing and development, are expensed as incurred. Advertising costs were \$3,143 and \$3,749 for the years ended August 31, 2020 and 2019, respectively.

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2020 AND 2019

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 implemented a program entitled family support services. It coordinated 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. The family support services program was discontinued during 2020.

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.

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2020 AND 2019

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.

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Pronouncement

On September 1, 2019, the Organization adopted Accounting Standards Update (“ASU”) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, as amended, as management believes the standard improves the usefulness and understandability of the Organization’s financial reporting. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions and improved guidance to better distinguish between conditional and unconditional contributions. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“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 deferred the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018, and in June 2020, in response to the COVID-19 pandemic, the FASB issued ASU 2020-05, allowing certain entities to defer implementation of ASU 2014-09 for an additional year. As a result of the issuance of ASU 2020-05, the Organization will defer the implementation of ASU 2014-09 until September 1, 2020. The Organization 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 statement of financial position 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 statement of activities. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*, which exempts entities from having to provide the interim disclosures required by Accounting Standards Codification (“ASC”) 250-10-50-3 in the fiscal year in which an organization adopts the new leases standard.

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The new standard, which will be effective for the Organization on September 1, 2022, provides a number of practical expedients. The Organization is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between August 31, 2020 and January 13, 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 - AVAILABILITY AND LIQUIDITY

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 229,297	\$ 116,904
Accounts receivable, net	315,361	301,633
Unconditional promises to give, net	<u>602,197</u>	<u>847,551</u>
Total financial assets	<u>1,146,855</u>	<u>1,266,088</u>
Less amounts not available to be used within one year:		
Unconditional promises to give, due after one year, net	(239,138)	(400,126)
Amounts received for specific purposes	<u>(50,191)</u>	<u>(85,645)</u>
	<u>(289,329)</u>	<u>(485,771)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 857,526</u>	<u>\$ 780,317</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Additionally, the Organization has the ability to draw from a line of credit to meet cash flow needs.

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2020 AND 2019

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.

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 82% and 90% of the Organization's promises to give were from three and four donors at August 31, 2020 and 2019, 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:

	<u>2020</u>	<u>2019</u>
Commercial	43.23%	74.74%
Medicaid	5.25%	7.94%
Self pay	12.04%	1.75%
Other	39.48%	15.57%
	<u>100.00%</u>	<u>100.00%</u>

The patient service revenue payor mix for the years ended August 31 is as follows:

	<u>2020</u>	<u>2019</u>
Commercial	65.87%	75.46%
Medicaid	10.05%	13.42%
Self pay	6.33%	2.08%
Other	17.75%	9.04%
Total	<u>100.00%</u>	<u>100.00%</u>

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2020 AND 2019

NOTE 5 - ACCOUNTS RECEIVABLE

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

	<u>2020</u>	<u>2019</u>
Tuition	\$ 2,014	\$ 8,921
Therapy services	<u>892,367</u>	<u>629,103</u>
	894,381	638,024
Less: allowance for contractual adjustments	(390,693)	(216,817)
Less: allowance for doubtful accounts	<u>(188,327)</u>	<u>(119,574)</u>
	<u>\$ 315,361</u>	<u>\$ 301,633</u>

NOTE 6 - PROMISES TO GIVE

Promises to give consisted of the following at August 31:

	<u>2020</u>	<u>2019</u>
Due in less than one year	\$ 374,059	\$ 458,425
Due in one to five years	<u>274,834</u>	<u>519,165</u>
	648,893	977,590
Less: allowance for doubtful accounts	(11,000)	(11,000)
Less: discount to present value	<u>(35,696)</u>	<u>(119,039)</u>
	<u>\$ 602,197</u>	<u>\$ 847,551</u>

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2020 AND 2019

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at August 31:

	<u>2020</u>	<u>2019</u>
Land	\$ 1,066,222	\$ 1,066,222
Buildings	8,527,104	8,527,104
Furniture and fixtures	251,561	251,561
Computer and software	31,105	41,605
Equipment	29,561	29,561
Capital leases	<u>24,666</u>	<u>24,666</u>
	9,930,219	9,940,719
Less: accumulated depreciation	<u>(997,615)</u>	<u>(752,646)</u>
	<u>\$ 8,932,604</u>	<u>\$ 9,188,073</u>

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 (3.25% and 5.25% at August 31, 2020 and 2019, respectively). The line of credit is collateralized by substantially all assets of the Organization. The maximum availability under this line of credit is \$400,000. At August 31, 2020 and 2019, \$0 and \$191,587 was drawn on the line of credit, respectively. Any amounts drawn on the 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 refinanced the line of credit with another financial institution. The new line of credit bears interest at the prime index rate plus 1.00%, with a floor of 4.00%. The line of credit is collateralized by a deed of trust on the Organization's real property. The maximum availability under this line of credit is \$400,000. Any amounts drawn on the line of credit plus unpaid interest are due and payable on December 29, 2021. Accrued and unpaid interest is due and payable monthly beginning on February 2, 2021.

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2020 AND 2019

NOTE 9 - NOTES PAYABLE

The Organization has a \$5,500,000 construction loan, requiring thirty-six interest-only payments of 4.78% beginning January 3, 2018 through December 3, 2020. After thirty-six interest-only payments, a principal payment was set to be made to reduce the outstanding balance to \$2,000,000. Then, forty-eight monthly consecutive principal and interest payments were to 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. In March 2020, the Organization amended the loan to modify the interest rate to 4%. The loan is collateralized by a deed of trust on the Organization's real property, which has a net book value of \$7,747,283 at August 31, 2020. The outstanding balance on the construction loan was \$3,950,454 and \$4,925,454 at August 31, 2020 and 2019, respectively.

Subsequent to year end, the Organization refinanced the construction loan with a new note with another financial institution. The note has a principal balance of \$2,950,000, and bears interest at a fixed rate of 3.87%. Monthly interest payments begin on February 2, 2021 and continue until the maturity date. The note also requires four annual principal payments of \$150,000 commencing on February 2, 2021 and continuing until February 2, 2025. The note matures on January 2, 2026, at which time the remaining unpaid principal balance and accrued interest will be due.

The Organization obtained an Economic Injury Disaster Loan ("EIDL") in June 2020 for \$149,900 requiring monthly principal and interest payments of \$641 beginning June 17, 2021. The loan bears interest at 2.75% and matures May 17, 2050. The outstanding balance on the EIDL loan was \$149,900 at August 31, 2020. The lender requires the real property of the Organization to be used as collateral, if available.

The Organization entered into a Paycheck Protection Program ("PPP") loan of \$539,823 in April 2020, which is fully forgivable if at least 60% of the funds are used for payroll costs, and if certain other terms are met. As of the date these financial statements were available to be issued, the Organization has not applied for forgiveness of the loan. If the loan is fully forgiven, the Organization will not be responsible for any payments, and the balance of the loan will be reclassified to other income on the Statements of Activities at the time forgiveness is granted. If only a portion of the loan is forgiven, or if the forgiveness application is denied, any remaining balance due on the loan must be repaid on or before the maturity date of the loan, including accrued interest. The loan bears interest at a fixed rate of 1% and matures on April 15, 2022. As the amount of the forgiveness has not yet been determined, no amounts have been included in the schedule of required principal maturities of long-term borrowings that follows.

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2020 AND 2019

NOTE 9 - NOTES PAYABLE (CONTINUED)

Future maturities of notes payable, excluding the PPP loan, based on the outstanding balance at August 31, 2020 are as follows:

Year ending August 31,

2021	\$	-
2022		589
2023		3,954,083
2024		3,730
2025		3,834
Thereafter		<u>138,118</u>
	\$	<u>4,100,354</u>

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,

2021	\$	4,032
2022		4,032
2023		2,646
2024		<u>276</u>
Total minimum lease payments payable		10,986
Less: amount representing interest		<u>(640)</u>
Present value of net minimum lease payments	\$	<u>10,346</u>

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2020 AND 2019

NOTE 11 - NET ASSETS

Net assets with donor restrictions consisted of the following at August 31:

	<u>2020</u>	<u>2019</u>
Multi-year contributions, net	\$ 566,187	\$ 839,260
Education grants	12,812	3,185
Program and fund development	1,248	25,000
Playground	12,575	-
Scholarships	15,847	37,972
Therapy grants	<u>7,709</u>	<u>19,488</u>
	<u>\$ 616,378</u>	<u>\$ 924,905</u>

NOTE 12 - THERAPY FEES

Therapy fees consisted of the following for the year ended August 31:

	<u>2020</u>	<u>2019</u>
Gross patient service revenue	\$ 4,106,877	\$ 2,716,038
Less: provisions for contractual and other adjustments	<u>(2,538,880)</u>	<u>(1,128,215)</u>
	<u>\$ 1,567,997</u>	<u>\$ 1,587,823</u>

NOTE 13 - TUITION AND FEES

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

	<u>2020</u>	<u>2019</u>
Tuition and fees	\$ 1,390,335	\$ 1,339,302
Less: financial aid	<u>(17,991)</u>	<u>(46,319)</u>
	<u>\$ 1,372,344</u>	<u>\$ 1,292,983</u>

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2020 AND 2019

NOTE 14 - DONATED SERVICES

The Organization receives donated information technology services. Additionally, during the year ended August 31, 2019, the Organization received donated director of finance services. Contributed services recognized amounted to \$177,932 and \$169,556 for the years ended August 31, 2020 and 2019, 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, 2020 and 2019 was \$118,557 and \$117,156, 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 2020 and 2019, 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 \$490,000 and \$133,000 during the years ended August 31, 2020 and 2019, respectively. Additionally, the Organization had outstanding promises to give from board members totaling approximately \$449,000 and \$748,000 as of August 31, 2020 and 2019, respectively.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

The Organization is contingently liable for a letter of credit in the amount of \$140,400 at August 31, 2020, which is issued by a financial institution, to ensure the maintenance of the Organization's landscaping and green infrastructure.

HIGH HOPES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2020 AND 2019

NOTE 18 - RISKS AND UNCERTAINTIES

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus included restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries including the geographical area in which the Organization operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Organization, the Organization’s leadership team continues to evaluate the evolving situation.