HIGH HOPES, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

AUGUST 31, 2021 AND 2020

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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, 2021 and 2020, 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.

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, 2021 and 2020, 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 14, 2022

HIGH HOPES, INC.

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2021 AND 2020

	2021	2020
ASSETS		
Cash and cash equivalents	$ 935,530	$ 229,297
Accounts receivable, net	261,182	315,361
Unconditional promises to give, net	244,632	602,197
Prepaid expenses	10,844	17,117
Property and equipment, net	8,732,010	8,932,604
TOTAL ASSETS	$ 10,184,198	$ 10,096,576
LIABILITIES AND NET ASSETS		
LIABILITIES		
Contract liabilities	$ 159,291	$ 119,490
Accounts payable	41,081	43,738
Accrued expenses	100,036	82,314
Obligation under capital lease	6,683	10,346
Notes payable	3,089,823	4,640,177
TOTAL LIABILITIES	3,396,914	4,896,065
NET ASSETS		
Without donor restrictions	6,249,073	4,584,133
With donor restrictions	538,211	616,378
TOTAL NET ASSETS	6,787,284	5,200,511
TOTAL LIABILITIES AND NET ASSETS	$ 10,184,198	$ 10,096,576

See accompanying notes to financial statements.

HIGH HOPES, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

	2021			2020		
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	Total	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	Total
REVENUES AND SUPPORT						
Contributions:						
United Way	$ 12,489	$ 35,833	$ 48,322	$ 36,587	$ 35,833	$ 72,420
Capital campaign	1,134,741	125	1,134,866	664,244	101,000	765,244
In-kind contributions	171,789	-	171,789	179,291	-	179,291
Other	255,363	316,962	572,325	236,437	30,266	266,703
Forgiveness of Paycheck Protection Program loan	539,823	-	539,823	-	-	-
Therapy fees, net	1,621,850	-	1,621,850	1,471,560	-	1,471,560
Tuition and fees, net	1,521,663	-	1,521,663	1,372,344	-	1,372,344
Special events	420,050	-	420,050	307,547	-	307,547
Other income	3,078	-	3,078	1,482	-	1,482
Net assets released due to satisfaction of restrictions	431,087	(431,087)	-	475,626	(475,626)	-
TOTAL REVENUE AND SUPPORT	6,111,933	(78,167)	6,033,766	4,745,118	(308,527)	4,436,591
EXPENSES						
Program services:						
Education	1,601,790	-	1,601,790	1,411,523	-	1,411,523
Therapy	2,261,754	-	2,261,754	2,147,712	-	2,147,712
Total program services	3,863,544	-	3,863,544	3,559,235	-	3,559,235
Supporting services:						
Management and general	285,417	-	285,417	452,382	-	452,382
Fundraising	298,032	-	298,032	221,195	-	221,195
Total supporting services	583,449	-	583,449	673,577	-	673,577
TOTAL EXPENSES	4,446,993	-	4,446,993	4,232,812	-	4,232,812
CHANGE IN NET ASSETS	1,664,940	(78,167)	1,586,773	512,306	(308,527)	203,779
NET ASSETS - BEGINNING OF YEAR	4,584,133	616,378	5,200,511	4,071,827	924,905	4,996,732
NET ASSETS - END OF YEAR	$ 6,249,073	$ 538,211	$ 6,787,284	$ 4,584,133	$ 616,378	$ 5,200,511

See accompanying notes to financial statements.

HIGH HOPES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,586,773	$ 203,779
Adjustments to reconcile change in net assets		
to net cash provided by (used in) operating activities:		
Depreciation	253,941	255,469
Contributions for capital campaign	(1,109,287)	(681,901)
Change in discounts on unconditional promises to give	(25,579)	(83,343)
Provision for doubtful accounts	177,229	109,677
Forgiveness of Paycheck Protection Program loan	(539,823)	-
(Increase) decrease in:		
Prepaid expenses	6,273	(17,117)
Accounts receivable	(123,050)	(113,405)
Unconditional promises to give	-	6,250
Increase (decrease) in:		
Tuition and special event fees collected in advance of earnings	39,801	7,143
Accounts payable	(2,657)	(83,892)
Accrued expenses	17,722	(4,240)
NET ADJUSTMENTS	(1,305,430)	(605,359)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	281,343	(401,580)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(53,347)	-
NET CASH USED IN INVESTING ACTIVITIES	(53,347)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections for capital campaign	1,492,431	994,348
Net repayments on revolving line of credit	-	(191,587)
Repayments on capital leases	(3,663)	(3,511)
Proceeds from notes payable	539,823	689,723
Repayments on notes payable	(1,550,354)	(975,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	478,237	513,973
NET INCREASE IN CASH	706,233	112,393
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	229,297	116,904
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 935,530	$ 229,297
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 117,601	$ 218,063
NONCASH ACTIVITIES		
Refinance of note payable	$ 2,949,471	$ -

See accompanying notes to financial statements.

HIGH HOPES, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

	2021					2020				
	Program Services		Supporting Services			Program Services		Supporting Services		
	Education	Therapy	Management and General	Fundraising	Total Expenses	Education	Therapy	Management and General	Fundraising	Total Expenses
Salaries	$ 1,097,309	$ 1,429,866	$ 183,880	$ 160,296	$ 2,871,351	$ 927,528	$ 1,291,914	$ 301,395	$ 117,998	$ 2,638,835
Payroll taxes	81,480	106,175	13,654	11,903	213,212	67,639	94,211	21,978	8,605	192,433
Employee benefits	49,498	64,499	8,295	7,231	129,523	44,116	61,448	14,336	5,612	125,512
Total salaries and related expenses	1,228,287	1,600,540	205,829	179,430	3,214,086	1,039,283	1,447,573	337,709	132,215	2,956,780
Advertising	540	704	90	79	1,413	1,105	1,539	359	140	3,143
Contractual services	68,716	232,578	17,179	-	318,473	71,173	270,846	20,492	-	362,511
Equipment and maintenance	24,920	32,472	4,176	3,640	65,208	14,022	19,531	4,556	1,784	39,893
Insurance	11,877	15,477	1,990	1,735	31,079	11,019	15,347	3,580	1,402	31,348
Interest	45,570	59,381	7,636	6,657	119,244	76,035	105,905	24,707	9,673	216,320
Occupancy	51,947	67,691	8,705	7,588	135,931	45,091	62,805	14,652	5,736	128,284
Other	15,268	19,895	2,559	2,230	39,952	10,614	14,784	3,450	1,350	30,198
Printing and postage	2,579	3,361	432	377	6,749	2,279	3,174	740	290	6,483
Professional services	20,604	26,848	3,453	3,010	53,915	21,259	29,611	6,908	2,705	60,483
Special events	-	-	-	78,067	78,067	-	-	-	40,528	40,528
Capital campaign	-	-	-	-	-	-	-	-	3,191	3,191
Supplies	26,488	60,258	1,086	-	87,832	18,653	38,765	1,282	-	58,700
Telephone	7,130	9,291	1,195	1,042	18,658	5,948	8,285	1,933	757	16,923
Training	819	6,801	14,825	-	22,445	2,007	4,475	2,836	-	9,318
Total expenses before depreciation and bad debts	1,504,745	2,135,297	269,155	283,855	4,193,052	1,318,488	2,022,640	423,204	199,771	3,964,103
Depreciation	97,045	126,457	16,262	14,177	253,941	89,795	125,072	29,178	11,424	255,469
Bad debts	-	-	-	-	-	3,240	-	-	10,000	13,240
TOTAL EXPENSES	$ 1,601,790	$ 2,261,754	$ 285,417	$ 298,032	$ 4,446,993	$ 1,411,523	$ 2,147,712	$ 452,382	$ 221,195	$ 4,232,812

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 ("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, 2021 or 2020.

Revenues and Support

Contributions: 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues 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.

Therapy Fees: The Organization receives payments from the following sources for services rendered: (i) commercial insurers; (ii) state governments under the Medicaid and other programs; (iii) other third-party payors; and (iv) individual patients.

Therapy fee revenue primarily consists of fee-for-service patient revenue and is recorded in the period in which services are rendered.

Fee-for-service revenue represents revenue earned under contracts in which the Organization bills and collects the professional charges for medical services rendered by the Organization's contracted therapist and employed therapist. Under the fee-for-service arrangements, the Organization bills third-party payors and further bills patients for patient care services provided and receives payment. Under both ASC 605 and ASC 606, fee-for-service revenue related to the patient care services is reported net of contractual allowances and are recognized in the period in which the services are rendered to specific patients. All services provided are expected to result in cash flows and are therefore reflected as net revenue in the financial statements. The recognition of net revenue (gross charges less contractual allowances) from such services is dependent on such factors as proper completion of medical charts, the entering into the Organization's billing system and the verification of each patient's submission or representation at the time services are rendered as to the payor(s) responsible for payment of such services.

Therapy fee revenue is recorded based on the information known at the time of entering such information into the Organization's billing systems.

Individual patient balances result from (1) patient responsibility balances based on the payor contract or reimbursement or (2) uninsured patients (self-pay). Although the Organization expects patient balances to result in cash flows, in some instances the patient is unable to remit fully the balance due. The Organization has the ability to offer discounts to settle patient balances. An allowance for bad debts (implicit price concessions) is calculated based on historical collection experience (most likely amount method) and is reflected as a reduction to net patient service revenue.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues and Support (Continued)

Consideration from fee-for-service arrangements is variable in nature because fees are based on patient encounters and payor reimbursement, both of which can vary from period to period. Patient evaluation and management encounters and diagnostic procedures qualify as distinct goods and services, provided simultaneously together with other readily available resources, in a single instance of service, and thereby constitute a single performance obligation for each patient encounter and, in most instances, occur at readily determinable transaction prices.

Estimating net fee-for-service revenue is a complex process, largely due to the volume of transactions, the number and complexity of contracts with payors, the limited availability at times of certain patient and payor information at the time services are provided, and the length of time it takes for collections to fully mature. These expected collections are based on fees and negotiated payment rates in the case of third-party payors, the specific benefits provided for under each patient’s healthcare plans, mandated payment rates in the case of Medicaid and other state programs, and historical cash collections (net of recoveries) in combination with expected collections from third party payors.

The relationship between gross charges and the transaction price recognized is significantly influenced by payor mix, as collections on gross charges may vary significantly, depending on whether the patients with whom the Organization provides services to in the period are insured and the Organization’s contractual relationships with those payors. Payor mix is subject to change as additional patient and payor information is obtained after the period services are provided. The Organization periodically assesses the estimates of unbilled revenue, contractual adjustments and discounts, and payor mix by analyzing actual results, including cash collections, against estimates. Changes in these estimates are charged or credited to the Statements of Activities in the period that the assessment is made. Significant changes in payor mix, contractual arrangements with payors, specialty mix, acuity, general economic conditions and health care coverage provided by state governments or private insurers may have a significant impact on estimates and significantly affect the results of operations and cash flows.

Tuition and Fees: Revenue from contracts with students for tuition and extended care is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing instruction and other program services. These amounts are due from parents and others and includes variable consideration for financial aid and scholarships. Revenue is recognized as performance obligations are satisfied. For kindergarten, the performance obligation is satisfied ratably over the academic year. For preschool and extended care, the performance obligation is satisfied monthly. Generally, the Organization obtains a contract with the kindergarten student’s parents prior to the beginning of the school year. Payment is due based upon a selected payment plan. The Organization bills for preschool and extended care prior to the beginning of each month. Families must withdraw prior to the school year to receive any refund of tuition payments but forfeit the enrollment deposit. Gross tuition and fees reflect the Organization’s normal tuition rates for all students. Expenses for financial aid given on the basis of financial need are netted against gross tuition and fees in the Statements of Activities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues and Support (Continued)

Performance obligations related to tuition and fees are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized proportionally over the term of service. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to students in the Organization receiving educational services.

The Organization determines the transaction price based on standard charges for services provided, discounts provided in accordance with the Organization's policy, and implicit price concessions provided to students. The Organization determines its estimates of explicit price concessions based on contractual agreements and its discount policies. The Organization determines its estimates of implicit price concessions based on its historical collection experience with each class of students. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the student's ability to pay are recorded as bad debt expense.

During the years ended August 31, 2021 and 2020, the Organization recognized revenue of $107,890 and $112,347, respectively, that was recognized as a contract liability at the beginning of the year.

Special Events: The Organization recognizes special event revenue as the performance obligations are satisfied, which is the completion of the event. The transaction price of events are fixed prices determined by management. Amounts received for events to be held in future periods are deferred until the event occurs.

Cash and Cash Equivalents

Cash and cash equivalents consists principally of cash on hand, demand deposits with banks and money market funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Therapy Services: 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. Patient accounts receivable due directly from patients have also been adjusted to fair value via estimated implicit price concessions to reflect the amount of consideration the Organization expects to collect. The Organization estimates implied price concessions 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.

Tuition and fees: The Organization reports tuition accounts receivable for services rendered at net realizable amounts. 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.

Unconditional Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded 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, 2021 and 2020, the discount rate was 3.87% and 4%, 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract Liabilities

Contract liabilities represents cash collected in advance of tuition services being performed and special event revenue being recognized.

Advertising Costs

Advertising costs, which also include marketing and development, are expensed as incurred.

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 Statements of Activities. In response to the COVID pandemic and the issuance of ASU 2020-05, the new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU is effective for the Organization beginning on July 1, 2021. The Organization is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Reclassifications

Certain prior year information has been reclassified to conform with current year presentation. This had no effect on the change in net assets as previously presented.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between August 31, 2021 and January 14, 2022, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - CHANGE IN ACCOUNTING POLICIES

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in GAAP. The ASU requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Organization adopted the new standard effective September 1, 2020, the first day of the Organization's fiscal year, using the full retrospective method.

NOTE 3 - CHANGE IN ACCOUNTING POLICIES (CONTINUED)

As part of the adoption of the ASU, the Organization elected to use the following transition practical expedients: (i) completed contracts that begin and end in the same annual reporting period have not been restated and (ii) used the known transaction price for completed contracts.

The Organization performed an analysis of revenue streams and transactions to determine in-scope applicability. The revenue streams considered in-scope include therapy fees, tuition and fees, and special events. Based on the Organization’s evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is primarily consistent with how revenue is recognized under the new standard. The adoption resulted in the majority of what was previously classified as the provision for bad debts in the Statements of Activities to now be reflected as implicit price concessions and therefore included as a reduction to patient service revenue in 2020 and 2021. For changes in credit-related bad debt not assessed at the date of service, the Organization will prospectively recognize those amounts as bad debt expense within operating expenses on the Statements of Activities. As of September 1, 2020, the Organization had recorded an allowance for doubtful accounts (implicit price concessions) of $185,027 that, as part of the adoption of ASC 606, was reclassified to be a component of therapy services accounts receivable. Other than these changes in presentation classification, the adoption of this ASU did not have a significant impact on the Organization’s financial statements.

NOTE 4 - AVAILABILITY AND LIQUIDITY

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

	2021	2020
Cash and cash equivalents	$ 935,530	$ 229,297
Accounts receivable, net	261,182	315,361
Unconditional promises to give, net	244,632	602,197
Total financial assets	1,441,344	1,146,855
Less amounts not available to be used within one year:		
Unconditional promises to give, due after one year, net	(29,883)	(239,138)
Amounts received for specific purposes	(350,995)	(50,191)
	(380,878)	(289,329)
Financial assets available to meet general expenditures within one year	$ 1,060,466	$ 857,526

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.

NOTE 5 - 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 76% and 82% of the Organization's promises to give were from two and three donors at August 31, 2021 and 2020, 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 patient accounts receivable from all payors as of August 31:

	2021	2020
Commercial	30.23%	43.23%
Medicaid	1.16%	5.25%
Self pay	19.74%	12.04%
Other	48.87%	39.48%
	100.00%	100.00%

NOTE 6 - CONTRACT BALANCES

Accounts receivable and deferred revenue from contracts with customers consisted of the following as of August 31:

	Accounts receivable		Contract liabilities	
	2021	2020	2021	2020
Beginning of year	$ 315,361	$ 301,633	$ 119,490	$ 112,347
End of year	$ 261,182	$ 315,361	$ 159,291	$ 119,490

NOTE 7 - 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:

	2021	2020
Tuition	$ 2,642	$ 2,014
Therapy services	333,704	501,674
	336,346	503,688
Less: allowance for doubtful accounts	(75,164)	(188,327)
	$ 261,182	$ 315,361

At August 31, 2021 and 2020, estimated contractual discounts of $357,506 and $390,693, respectively, have been recorded as reductions to therapy services receivable for accounts receivable to be recorded at their estimated collectible amounts.

NOTE 8 - UNCONDITIONAL PROMISES TO GIVE

Promises to give consisted of the following at August 31:

	2021	2020
Due in less than one year	$ 225,749	$ 374,059
Due in one to five years	40,000	274,834
	265,749	648,893
Less: allowance for doubtful accounts	(11,000)	(11,000)
Less: discount to present value	(10,117)	(35,696)
	$ 244,632	$ 602,197

NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at August 31:

	2021	2020
Land	$ 1,066,222	$ 1,066,222
Buildings	8,527,104	8,527,104
Furniture and fixtures	287,486	251,561
Computer and software	36,785	31,105
Equipment	41,303	29,561
Capital leases	24,666	24,666
	9,983,566	9,930,219
Less: accumulated depreciation	(1,251,556)	(997,615)
	$ 8,732,010	$ 8,932,604

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 non-cancelable capital leases at August 31, 2021 are as follows:

Year ending August 31,	
2022	$ 4,032
2023	2,646
2024	276
Total minimum lease payments payable	6,954
Less: amount representing interest	(271)
Present value of net minimum lease payments	$ 6,683

NOTE 11 - LINE OF CREDIT

The Organization had a line of credit with a financial institution, which bore interest at the lender's base commercial rate (3.25% at August 31, 2020). The line of credit was collateralized by substantially all assets of the Organization. The maximum availability under this line of credit was $400,000. At August 31, 2020, there was not an outstanding balance on the line of credit. Any amounts drawn on the line of credit plus unpaid interest were due and payable on February 8, 2021. Accrued and unpaid interest were due and payable monthly.

In December 2020, 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% (4.25% at August 31, 2021). 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 were to be due and payable on December 29, 2021. Accrued and unpaid interest is due and payable monthly beginning on February 2, 2021. At August 31, 2021, there was no outstanding balance on the line of credit.

Subsequent to year end, the line of credit was extended for one year. Any amounts drawn on the line of credit plus unpaid interest are due and payable on December 29, 2022.

NOTE 12 - NOTES PAYABLE

The Organization had 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 was set to mature on December 3, 2024, at which time the remaining unpaid principal balance and accrued interest would be due. In March 2020, the Organization amended the loan to modify the interest rate to 4%. At August 31, 2020, the balance outstanding on the loan was $3,954,454. In October 2020, the Organization also amended the loan to forgo the requirement to reduce the principal balance to $2,000,000 by December 2020. In lieu of this requirement, the Organization was required to reduce the principal balance to $3,350,454 by September 30, 2022 at which time the remaining principal balance would be due.

The Organization refinanced the construction loan through another financial institution in December 2020 with a $2,950,000 loan. The loan requires 72 interest-only payments of 3.87% beginning February 2, 2021 continuing until January 2, 2026. Principal paydowns of $150,000 shall be due and payable on February 2, 2021 and then February 2nd of 2023, 2024 and 2025. This note matures on January 2, 2026, at which time all outstanding and unpaid principal, accrued interest, fees, and loan expenses shall be due and payable. At August 31, 2021, the loan has an outstanding balance of $2,550,000.

Subsequent to year end, the loan was amended and changed the following terms: the interest rate is a fixed rate of 3.07%; monthly interest-only payments, principal paydowns of $100,000 are due and payable on February 2nd beginning in 2023 and continuing through 2029; and the outstanding principal and interest balance is due in full on November 2, 2029. Prepayment premiums may be required under certain circumstances.

The loan is secured by a deed of trust on the underlying property and equipment with a carrying value of $8,732,010.

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 bore interest at 2.75% and was set to mature on May 17, 2050. The loan was paid off during the year.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law. The CARES Act provided an economic relief package to many businesses in the United States as a direct response to the adverse impacts of COVID-19. Section 1102 of the CARES Act established the Paycheck Protection Program ("PPP"), which was implemented by the Small Business Administration, and was intended to provide small businesses (generally those with 500 or less employees) with funds in amounts up to 2.5 times the business's average monthly payroll expenses to pay for eligible expenses, including payroll, benefits, rent and utilities. The funds were available in the form of a loan. The loan is fully forgivable if at least 60% of the funds are used for payroll costs, and if certain other terms are met. Any unforgiven funds will convert to a note with a 1.0% interest rate and payable over 24 or 60 months, depending on the date of issuance.

NOTE 12 - NOTES PAYABLE (CONTINUED)

On April 14, 2020, the Organization received $539,823 from a PPP loan. On May 12, 2021 the Organization received notification that the PPP loan had been fully forgiven. As such, the forgiveness of the principal balance has been presented in the Statements of Activities as forgiveness of Paycheck Protection Program loan revenue.

On February 4, 2021, Organization received a second PPP loan in the amount of $539,823. The second PPP loan has substantially the same terms noted above. As of the date these financial statements were available to be issued, the Organization has applied for forgiveness of their loan but has not received notification of the forgiveness amount. The loan has been excluded from the schedule of required principal maturities of long-term borrowings that follows.

Future maturities of notes payable, excluding the PPP loan, outstanding at August 31, 2021 are as follows:

Year ending August 31,	
2022	$ -
2023	100,000
2024	100,000
2025	100,000
2026	100,000
Thereafter	2,150,000
	$ 2,550,000

NOTE 13 - NET ASSETS

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

	2021	2020
Multi-year contributions, net	$ 187,216	$ 566,187
Education grants	10,426	12,812
Program and fund development	805	1,248
Playground	13,075	12,575
Satellite campus	298,902	-
Scholarships	11,900	15,847
Therapy grants	15,887	7,709
	$ 538,211	$ 616,378

NOTE 14 - REVENUES FROM CONTRACTS WITH CUSTOMERS

The Organization disaggregates therapy revenue by payor. All revenue from contracts with customers is disaggregated based on the timing of satisfaction of performance obligations. This level of detail provides useful information pertaining to how the Organization generates revenue by significant revenue stream.

The following table disaggregates therapy fee revenue generated by each payor type for the years ended August 31:

Therapy fees revenue by payor	2021	Ratio	2020	Ratio
Commercial	$ 932,564	57.50%	$ 969,317	65.87%
Medicaid	134,614	8.30%	147,892	10.05%
Self pay	183,431	11.31%	93,150	6.33%
Other	371,241	22.89%	261,201	17.75%
Total	$ 1,621,850	100.00%	$ 1,471,560	100.00%

The following table disaggregates the Organization's revenue from contracts with customers based on timing of satisfaction of performance obligations for the years ended August 31:

	2021	2020
Performance obligations satisfied at a point in time	$ 2,041,900	$ 1,779,107
Performance obligations satisfied over time	1,521,663	1,372,344
Total contract revenues	$ 3,563,563	$ 3,151,451

For the year ending August 31, 2021 and 2020, estimated provisions for contractual discounts of $2,041,174 and $2,538,880, respectively, and implicit price concessions of $177,229 and $106,437, respectively, have been recorded as reductions to therapy service revenue to record the revenue at the estimated amounts the Organization expects to collect.

NOTE 15 - TUITION AND FEES

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

	2021	2020
Tuition and fees	$ 1,532,775	$ 1,390,335
Less: financial aid	(11,112)	(17,991)
	$ 1,521,663	$ 1,372,344

NOTE 16 - DONATED SERVICES

The Organization receives donated information technology services from a related party. Contributed services recognized amounted to $171,789 and $177,932 for the years ended August 31, 2021 and 2020, respectively, and are recorded as contributions revenue and contractual services expenses in the Statements of Activities.

NOTE 17 - 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, 2021 and 2020 was $121,422 and $118,557, 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 2021 and 2020, the Organization did not make any discretionary employer contributions to the Plan.

NOTE 18 - RELATED PARTIES

In the ordinary course of business, board members and other related advisory parties may make substantial promises to give to the Organization in support of its mission. The Organization received support from board members and other advisory parties totaling approximately $1,260,000 and $490,000 during the years ended August 31, 2021 and 2020, respectively. Additionally, the Organization had outstanding promises to give from board members and other advisory parties totaling approximately $228,000 and $449,000 as of August 31, 2021 and 2020, respectively.

NOTE 19 - COMMITMENTS AND CONTINGENCIES

The Organization is contingently liable for two letters of credit totaling $26,000 at August 31, 2021, which are issued by a financial institution, to ensure the maintenance of the Organization's landscaping and green infrastructure. Subsequent to year end, the Organization satisfied the obligations for maintenance of the landscaping and green infrastructure and the letters of credit were cancelled.

As of August 31, 2020, the Organization was contingently liable a letter of credit totaling $140,000, which was issued by a financial institution, to ensure the maintenance of the Organization's landscaping and green infrastructure. During the year ending August 31, 2021, the Organization satisfied the obligation, and the letter of credit was cancelled.

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.

NOTE 20 - COVID-19

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 and has implemented, and will continue to implement appropriate countermeasures as needed.