

SPECIAL SPACES, INC.
Knoxville, Tennessee
FINANCIAL STATEMENTS
December 31, 2022 and 2021





PUGH & COMPANY, P.C.
315 NORTH CEDAR BLUFF ROAD, SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
FAX 865-769-1660
www.pughcpas.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Special Spaces, Inc.
Knoxville, Tennessee

Opinion

We have audited the financial statements of Special Spaces, Inc. (the Organization) which comprise the statements of financial position as of December 31, 2022 and 2021, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
May 30, 2023

SPECIAL SPACES, INC.
STATEMENTS OF FINANCIAL POSITION

	As of December 31,	<u>2022</u>	<u>2021</u>
ASSETS			
CURRENT ASSETS			
Cash	\$	1,566,649	\$ 1,355,724
Receivables:			
Contributions		1,000	5,000
Pledges, Net		67,518	72,895
Prepaid Expenses		<u>63,060</u>	<u>32,083</u>
Total Current Assets		<u>1,698,227</u>	<u>1,465,702</u>
PROPERTY AND EQUIPMENT			
Furniture and Equipment		25,243	21,564
Accumulated Depreciation		<u>(15,313)</u>	<u>(19,694)</u>
Total Property and Equipment, Net		<u>9,930</u>	<u>1,870</u>
PLEDGES RECEIVABLE, NET		<u>75,000</u>	<u>150,000</u>
TOTAL ASSETS	\$	<u>1,783,157</u>	\$ <u>1,617,572</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accrued Expenses	\$	26,117	\$ 19,903
Deferred Revenue		<u>212,250</u>	<u>252,375</u>
Total Current Liabilities		<u>238,367</u>	<u>272,278</u>
NET ASSETS			
Net Assets Without Donor Restrictions		1,402,272	1,122,399
Net Assets With Donor Restrictions		<u>142,518</u>	<u>222,895</u>
Total Net Assets		<u>1,544,790</u>	<u>1,345,294</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>1,783,157</u>	\$ <u>1,617,572</u>

The accompanying notes are an integral part of these financial statements.

SPECIAL SPACES, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Contributions:			
Contributions	\$ 853,911	\$ 0	\$ 853,911
Contributions of Nonfinancial Assets	<u>375,475</u>	<u>0</u>	<u>375,475</u>
Total Contributions	1,229,386	0	1,229,386
Fund Raising Activities, Net	750,866	0	750,866
Miscellaneous Income	28,833	0	28,833
Net Assets Released from Restrictions	<u>80,377</u>	<u>(80,377)</u>	<u>0</u>
Total Revenues and Other Support	<u>2,089,462</u>	<u>(80,377)</u>	<u>2,009,085</u>
EXPENSES			
Program Services	1,550,197	0	1,550,197
Management and General	130,588	0	130,588
Fundraising	<u>128,804</u>	<u>0</u>	<u>128,804</u>
Total Expenses	<u>1,809,589</u>	<u>0</u>	<u>1,809,589</u>
CHANGE IN NET ASSETS	279,873	(80,377)	199,496
NET ASSETS, BEGINNING OF YEAR	<u>1,122,399</u>	<u>222,895</u>	<u>1,345,294</u>
NET ASSETS, END OF YEAR	<u>\$ 1,402,272</u>	<u>\$ 142,518</u>	<u>\$ 1,544,790</u>

The accompanying notes are an integral part of these financial statements.

SPECIAL SPACES, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Contributions:			
Contributions	\$ 514,349	\$ 222,895	\$ 737,244
Contributions of Nonfinancial Assets	<u>355,357</u>	<u>0</u>	<u>355,357</u>
Total Contributions	869,706	222,895	1,092,601
Fund Raising Activities, Net	512,793	0	512,793
Miscellaneous Income	<u>196</u>	<u>0</u>	<u>196</u>
Total Revenues and Other Support	<u>1,382,695</u>	<u>222,895</u>	<u>1,605,590</u>
EXPENSES			
Program Services	1,181,809	0	1,181,809
Management and General	165,175	0	165,175
Fundraising	<u>75,999</u>	<u>0</u>	<u>75,999</u>
Total Expenses	<u>1,422,983</u>	<u>0</u>	<u>1,422,983</u>
CHANGE IN NET ASSETS	(40,288)	222,895	182,607
NET ASSETS, BEGINNING OF YEAR	<u>1,162,687</u>	<u>0</u>	<u>1,162,687</u>
NET ASSETS, END OF YEAR	<u>\$ 1,122,399</u>	<u>\$ 222,895</u>	<u>\$ 1,345,294</u>

The accompanying notes are an integral part of these financial statements.

SPECIAL SPACES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2022

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Materials and Labor for Room Makeovers	\$ 1,036,103	\$ 0	\$ 0	\$ 1,036,103
Salaries and Related	186,261	79,093	49,651	315,005
Office Expenses	10,426	10,099	0	20,525
Rent	21,757	0	0	21,757
Travel	24,613	0	0	24,613
Professional Fees	116,524	33,626	41,559	191,709
Staff Development	2,842	0	0	2,842
Business Insurance	3,768	3,768	3,768	11,304
Volunteer Hospitality	58,800	0	0	58,800
Fundraising - Expenses Indirect	0	0	32,116	32,116
Maintenance, Utilities and Phone	1,357	1,157	1,157	3,671
Bank Fees	3,747	0	0	3,747
State Registrations	0	2,292	0	2,292
Contributions	83,446	0	0	83,446
Depreciation	553	553	553	1,659
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ <u>1,550,197</u>	\$ <u>130,588</u>	\$ <u>128,804</u>	\$ <u>1,809,589</u>

The accompanying notes are an integral part of these financial statements.

SPECIAL SPACES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2021

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Materials and Labor for Room Makeovers	\$ 888,796	\$ 0	\$ 0	\$ 888,796
Salaries and Related	181,619	74,800	48,219	304,638
Office Expenses	7,319	7,651	0	14,970
Rent	20,710	0	0	20,710
Travel	13,803	0	0	13,803
Professional Fees	21,075	74,565	0	95,640
Staff Development	2,001	0	0	2,001
Business Insurance	3,832	3,832	3,832	11,496
Volunteer Hospitality	37,859	0	0	37,859
Fundraising - Expenses Indirect	0	0	22,597	22,597
Maintenance, Utilities and Phone	592	552	552	1,696
Bank Fees	3,799	394	394	4,587
State Registrations	0	2,976	0	2,976
Depreciation	404	405	405	1,214
	<u>404</u>	<u>405</u>	<u>405</u>	<u>1,214</u>
Total	<u>\$ 1,181,809</u>	<u>\$ 165,175</u>	<u>\$ 75,999</u>	<u>\$ 1,422,983</u>

The accompanying notes are an integral part of these financial statements.

SPECIAL SPACES, INC.
STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ <u>199,496</u>	\$ <u>182,607</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation of Furniture and Equipment	1,659	1,214
(Increase) Decrease in Receivables	84,377	(179,135)
(Increase) Decrease in Prepaid Expenses	(30,977)	(23,821)
Increase (Decrease) in Liabilities	6,214	9,511
Increase (Decrease) in Deferred Revenue	<u>(40,125)</u>	<u>117,125</u>
Total Adjustments	<u>21,148</u>	<u>(75,106)</u>
Net Cash Provided by Operating Activities	<u>220,644</u>	<u>107,501</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Furniture and Equipment	<u>(9,719)</u>	<u>0</u>
Net Cash Used in Investing Activities	<u>(9,719)</u>	<u>0</u>
NET INCREASE IN CASH	210,925	107,501
CASH AT BEGINNING OF YEAR	<u>1,355,724</u>	<u>1,248,223</u>
CASH AT END OF YEAR	<u>\$ <u>1,566,649</u></u>	<u>\$ <u>1,355,724</u></u>

The accompanying notes are an integral part of these financial statements.

SPECIAL SPACES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - NATURE OF OPERATIONS

Special Spaces, Inc. is a not-for-profit organization whose principal purpose is to develop and construct customized rooms for children with critical illnesses. Special Spaces, Inc. (the "Organization") was organized in 2004 and currently has 20 chapter locations across the United States. The Organization is supported by local businesses, corporations and other groups. These supporters generally provide a team of volunteers to help with the decorating and completion of each child's room. The Organization is governed by a volunteer board of directors. All chapters also have volunteer chapter directors who oversee the activities within their chapters. The Organization's national office operates in Knoxville, Tennessee.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by the Organization:

Basis of Accounting - The financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP).

Adoption of New Accounting Principles - 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 applies to nonprofit organizations that receive contributed nonfinancial assets. Contribution revenue may be presented in the financial statements using different terms (for examples, gifts, donation, grants gifts-in-kind, donated services, or other terms). The term nonfinancial asset includes fixed assets (such as land, buildings and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. The Organization has adopted this guidance for the year ended December 31, 2022. The adoption of ASU 2020-07 impacted certain disclosures of the Organization's financial statements. See Note 7.

Reclassifications - Certain items in the 2021 financial statements have been reclassified to conform with the 2022 financial statements.

Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could vary from those estimates. Management believes that these estimates and assumptions provide reasonable basis for the fair presentation of the financial statements.

Basis of Presentation - The financial statements of the Organization have been prepared on the accrual basis and in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*.

The Organization reports information regarding its financial position and activities in the following categories:

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. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

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, whereby the donor has stipulated the funds be maintained in perpetuity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions and Pledges Receivable - Contributions are recognized as revenue by the Organization when the donor makes a promise to give that is in substance, unconditional. Pledges are considered unconditional promises. These pledges are recorded at their estimated net realizable value which includes adjusting receivables for uncollectible amounts and reducing the carrying amount of long-term pledges to their present value. The carrying amount of long-term pledges includes a discount to present value. The present value adjustment is determined using a discount rate approximately equivalent to treasury yields of similar maturity compounded monthly over the donor stipulated pledge payment.

Receivables are written off when they are determined to be uncollectible. The Organization has evaluated the accounts and considers contributions and pledges receivable to be fully collectible; accordingly, no allowance for uncollectible receivables is required.

Contributions of Nonfinancial Assets - Donated property and equipment are recorded as contributions at their fair market value at their date of donation. The Organization reports such donations in the net assets without donor restrictions category, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets must be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported in the net assets with donor restrictions category. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the expiration of donor restrictions is reported when the donated or acquired assets are placed in service. The value of donated goods and services included in the financial statements for the year ended December 31, 2022 is \$227,000 and \$149,000 (\$266,000 and \$89,000 in 2021), respectively (See Note 7).

Additionally, a substantial number of unpaid volunteers have made significant contributions of their personal time. The value of this contributed time is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.

Special Events - Revenues from fundraising activities are presented net of the direct costs associated with these activities. Program fees funded by fundraising activities totaled \$436,614 as of December 31, 2022 (\$303,412 as of December 31, 2021). The revenue is conditional on the event taking place, as this is the point in time when the performance obligation of hosting the fundraiser occurs, and the attendees can no longer request a refund. The amounts are collected at the time of purchase and are included in deferred revenue until recognized.

Property and Equipment - Property and equipment are stated at cost, net of accumulated depreciation. Gifts of property and equipment are recorded at their fair market value when received. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

Cash - The chapters have raised funds totaling approximately \$1,319,000 and \$1,205,000 for the years ended December 31, 2022 and 2021, respectively, that is included in cash for the future development and construction of rooms.

Income Tax Status - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization files annual returns of organizations exempt from income taxes with the IRS.

Advertising and Promotion - The Organization expenses advertising and marketing costs as incurred. The Organization did not recognize any advertising and marketing costs for the years ended December 31, 2022 and 2021, respectively.

Functional Expenses Allocation - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Costs are charged to program services, management and general, and fund-raising functions based on direct expenses incurred. Indirect expenses are allocated among the program and supporting services benefited.

Evaluation of Subsequent Events - The Organization's management has evaluated subsequent events through May 30, 2023, which is the date the financial statements were available to be issued and has determined that there are no subsequent events that require disclosure.

NOTE 3 - CONCENTRATIONS OF RISK

The Organization maintains its cash in two financial institutions. The cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC) at each institution up to \$250,000 per legal ownership. From time to time, the Organization may hold deposits in excess of the insured limits.

The Organization receives a significant portion of its revenue in the form of contributions and donations from individuals, corporations and other entities. Large fluctuations in these types of support and revenue could have a negative impact upon the level and types of activities and programs offered by the Organization.

NOTE 4 - AVAILABLE RESOURCES AND LIQUIDITY

The Organization regularly monitors the availability of resources required to meet its recurring operating needs. The Organizations operating expenses average approximately \$1,600,000 annually depending on the number of rooms completed. For purposes of analyzing resources available to meet expenditures over a 12-month period, the Organization considers all cash expenditures related to its ongoing activities.

As of December 31, 2022, the following financial assets could readily be made available within one year of the statement of financial position date to meet cash expenditures. Amounts not available to meet cash expenditures within one year also would include net assets with restrictions or financial assets with internal designations. See Note 6.

	<u>2022</u>	<u>2021</u>
Financial Assets at Year-End:		
Cash	\$ 1,566,649	\$ 1,355,724
Contributions Receivable	1,000	5,000
Pledges Receivable, Net	<u>142,518</u>	<u>222,895</u>
Total Financial Assets	<u>1,710,167</u>	<u>1,583,619</u>
Less Those Unavailable for General Expenditures		
Within One Year, Due to:		
Pledges Receivable due in 2023 and 2024	<u>75,000</u>	<u>150,000</u>
Financial Assets Available to Meet Cash Needs Within One Year	<u>\$ 1,635,167</u>	<u>\$ 1,583,619</u>

In addition to financial assets available to meet cash expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover cash expenditures. Refer to the statement of cash flows which identifies the sources and uses of the Organization's cash and shows positive cash generated by operations for the year ended December 31, 2022.

NOTE 5 - PLEDGES RECEIVABLE

Pledges Receivable due as of December 31 as follows:

	<u>2022</u>	<u>2021</u>
Due Within One Year	\$ 75,000	\$ 75,000
Due in One to Three Years	<u>75,000</u>	<u>150,000</u>
Gross Pledges Receivables	150,000	225,000
Less: Present Value Allowance	<u>(7,482)</u>	<u>(2,105)</u>
Pledges Receivable - Net	<u>\$ 142,518</u>	<u>\$ 222,895</u>

NOTE 5 - PLEDGES RECEIVABLE (Continued)

In 2021, the Organization received a three-year pledge for annual galas and future operations. Unconditional pledges receivable resulting from this pledge, which were expected to be received over more than one year, were recorded by the Organization at the amount expected to be received. In estimating the cash flows, the Organization has considered factors such as when the promise is expected to be collected, the donor's creditworthiness, past collection experience, and other relevant factors. The estimated realizable values of these unconditional pledges are summarized in the table above.

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	<u>2022</u>	<u>2021</u>
Subject to the Passage of Time:		
Future Operations	\$ 95,012	\$ 147,895
Subject to Expenditure for a Specific Purpose:		
Annual Galas	<u>47,506</u>	<u>75,000</u>
	<u>\$ 142,518</u>	<u>\$ 222,895</u>

NOTE 7 - CONTRIBUTED NONFINANCIAL ASSETS

Contributed nonfinancial assets ("contributions in-kind") recognized within the statement of activities for the years ended December 31 included:

	<u>2022</u>	<u>2021</u>
Room Makeovers - Professional Services and Materials	\$ 231,397	\$ 171,248
Fundraisers - Professional Services, Food and Furnishings	139,380	182,261
Donated Equipment	2,850	0
Storage Unit	<u>1,848</u>	<u>1,848</u>
Total Contributed Nonfinancial Assets	<u>\$ 375,475</u>	<u>\$ 355,357</u>

All of the contributed nonfinancial assets shown above were utilized in Special Spaces during the years ended December 31, 2022 and 2021. Donated professional services, materials, food and furnishings were utilized in the room makeovers and fundraising events. Donated equipment and storage unit were utilized in storing and transporting materials for the room makeovers. The Organization's policy is to utilize contributed nonfinancial assets that are needed for their programs and to monetize them otherwise.