

CHILD NEUROLOGY FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021



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**CHILD NEUROLOGY FOUNDATION
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YEARS ENDED DECEMBER 31, 2022 AND 2021**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Child Neurology Foundation
Lexington, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Child Neurology Foundation (the Foundation) which comprise the statements of financial position as of December 31, 2022 and 2021, and 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 financial statements referred to above present fairly, in all material respects, the financial position of Child Neurology Foundation 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Child Neurology Foundation 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 Child Neurology Foundation's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' 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 auditors' 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.

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 Child Neurology Foundation'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 Child Neurology Foundation'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.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 27, 2023

**CHILD NEUROLOGY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021**

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 380,535	\$ 1,986,231
Pledges Receivable, Net	658,476	1,298,043
Investments, Short-Term	853,447	389,602
Prepaid Expenses	11,875	31,401
Total Current Assets	1,904,333	3,705,277
LONG-TERM ASSETS		
Pledges Receivable, Net of Current Portion	301,471	625,568
Investments, Long-Term	446,669	134,075
Right-of-Use Asset	65,740	98,957
Property, Plant, and Equipment, Net	25,987	19,274
Total Long-Term Assets	839,867	877,874
Total Assets	\$ 2,744,200	\$ 4,583,151
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 290,630	\$ 270,023
Grants Payable	250,000	200,000
Lease Liability, Current Portion	34,829	34,035
Deferred Revenue	158,000	235,000
Total Current Liabilities	733,459	739,058
LONG-TERM LIABILITIES		
Grants Payable, Net of Current Portion	141,965	99,536
Lease Liability, Net of Current Portion	35,656	70,486
Note Payable	90,000	100,000
Total Long-Term Liabilities	267,621	270,022
Total Liabilities	1,001,080	1,009,080
NET ASSETS		
Without Donor Restrictions	575,013	448,077
With Donor Restrictions	1,168,107	3,125,994
Total Net Assets	1,743,120	3,574,071
Total Liabilities and Net Assets	\$ 2,744,200	\$ 4,583,151

See accompanying Notes to Financial Statements.

**CHILD NEUROLOGY FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 645,981	\$ 548,630	\$ 1,194,611
Membership Fees	712,500	-	712,500
Other Revenue	17,965	-	17,965
Investment Income (Loss)	(34,011)	(16,454)	(50,465)
Net Assets Released from Restriction	2,490,063	(2,490,063)	-
Total Support and Revenue	<u>3,832,498</u>	<u>(1,957,887)</u>	<u>1,874,611</u>
EXPENSES			
Program Services:			
Community Education and Support	1,785,158	-	1,785,158
Research Grants	345,600	-	345,600
Total Program Services	<u>2,130,758</u>	<u>-</u>	<u>2,130,758</u>
Management and General	1,250,517	-	1,250,517
Fundraising	324,287	-	324,287
Total Expenses	<u>3,705,562</u>	<u>-</u>	<u>3,705,562</u>
CHANGE IN NET ASSETS	126,936	(1,957,887)	(1,830,951)
Net Assets - Beginning of Year	<u>448,077</u>	<u>3,125,994</u>	<u>3,574,071</u>
NET ASSETS - END OF YEAR	<u>\$ 575,013</u>	<u>\$ 1,168,107</u>	<u>\$ 1,743,120</u>

See accompanying Notes to Financial Statements.

**CHILD NEUROLOGY FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 604,485	\$ 2,326,376	\$ 2,930,861
Membership Fees	608,333	-	608,333
Other Revenue	1,750	-	1,750
Investment Income	12,301	4,974	17,275
Net Assets Released from Restriction	2,047,629	(2,047,629)	-
Total Support and Revenue	<u>3,274,498</u>	<u>283,721</u>	<u>3,558,219</u>
EXPENSES			
Program Services:			
Community Education and Support	1,873,086	-	1,873,086
Research Grants	216,453	-	216,453
Total Program Services	<u>2,089,539</u>	<u>-</u>	<u>2,089,539</u>
Management and General	836,269	-	836,269
Fundraising	264,325	-	264,325
Total Expenses	<u>3,190,133</u>	<u>-</u>	<u>3,190,133</u>
CHANGE IN NET ASSETS	84,365	283,721	368,086
Net Assets - Beginning of Year	<u>363,712</u>	<u>2,842,273</u>	<u>3,205,985</u>
NET ASSETS - END OF YEAR	<u><u>\$ 448,077</u></u>	<u><u>\$ 3,125,994</u></u>	<u><u>\$ 3,574,071</u></u>

See accompanying Notes to Financial Statements.

**CHILD NEUROLOGY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022**

EXPENSES	Community Education and Support	Research Grants	Total Program Services	Management and General	Fundraising	Total Functional Expenses
Personnel Costs	\$ 427,929	\$ 6,605	\$ 434,534	\$ 854,089	\$ 242,809	\$ 1,531,432
Rent and Utilities	18,820	234	19,054	23,219	7,388	49,661
Grants	161,875	311,929	473,804	-	-	473,804
Meetings and Travel	21,934	3,168	25,102	124,642	20,925	170,669
Professional Fees	929,580	23,033	952,613	157,533	40,900	1,151,046
Postage	750	-	750	1,363	179	2,292
Printing and Publications	60	-	60	543	154	757
Dues and Memberships	750	300	1,050	876	-	1,926
Depreciation	-	-	-	8,367	-	8,367
Technology and IT Support	223,144	331	223,475	26,371	10,717	260,563
Office Supplies and Other	316	-	316	28,514	1,215	30,045
Bad Debt Expense	-	-	-	25,000	-	25,000
Total Expenses	<u>\$ 1,785,158</u>	<u>\$ 345,600</u>	<u>\$ 2,130,758</u>	<u>\$ 1,250,517</u>	<u>\$ 324,287</u>	<u>\$ 3,705,562</u>

See accompanying Notes to Financial Statements.

**CHILD NEUROLOGY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021**

EXPENSES	Community Education and Support	Research Grants	Total Program Services	Management and General	Fundraising	Total Functional Expenses
Personnel Costs	\$ 613,919	\$ 10,146	\$ 624,065	\$ 597,566	\$ 130,234	\$ 1,351,865
Rent and Utilities	22,898	363	23,261	14,458	2,775	40,494
Grants	129,000	203,203	332,203	-	-	332,203
Meetings and Travel	7,054	-	7,054	6,058	7,717	20,829
Professional Fees	1,002,495	2,170	1,004,665	154,690	115,495	1,274,850
Postage	5,680	86	5,766	1,487	201	7,454
Printing and Publications	-	-	-	709	-	709
Dues and Memberships	800	-	800	2,404	500	3,704
Management Fee	8,186	163	8,349	2,533	1,203	12,085
Depreciation	-	-	-	17,435	-	17,435
Technology and IT Support	82,651	322	82,973	15,676	4,765	103,414
Office Supplies and Other	403	-	403	23,253	1,435	25,091
Total Expenses	<u>\$ 1,873,086</u>	<u>\$ 216,453</u>	<u>\$ 2,089,539</u>	<u>\$ 836,269</u>	<u>\$ 264,325</u>	<u>\$ 3,190,133</u>

See accompanying Notes to Financial Statements.

**CHILD NEUROLOGY FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (1,830,951)	\$ 368,086
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	8,367	17,435
Right-of-Use Asset Obtained in Exchange for Operating Lease Liability	-	(104,516)
Amortization of Right-of-Use Asset	33,217	5,559
Realized and Unrealized (Gain) Loss on Investments	67,372	(6,251)
Contributions Restricted for Endowment	(700)	-
Gain on Extinguishment of Debt	(10,000)	-
Effects of Changes in Operating Assets and Liabilities:		
Contributions Receivable	963,664	(442,034)
Prepaid Expenses and Other Assets	19,526	(12,876)
Accounts Payable and Accrued Expenses	20,607	65,628
Grants Payable	92,429	(297)
Lease Liability	(34,036)	104,521
Deferred Revenue	(77,000)	(45,000)
Net Cash Used by Operating Activities	(747,505)	(49,745)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(15,080)	-
Purchase of Investments	(1,781,469)	(462,612)
Proceeds from Sale of Investments	937,658	79,137
Net Cash Used by Investing Activities	(858,891)	(383,475)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions Restricted for Endowment	700	-
Proceeds from Note Payable	-	100,000
Net Cash Provided by Financing Activities	700	100,000
 NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,605,696)	(333,220)
Cash and Cash Equivalents - Beginning of Year	1,986,231	2,319,451
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 380,535	\$ 1,986,231

See accompanying Notes to Financial Statements.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Child Neurology Foundation (the Foundation), a nonprofit corporation, is established to serve as a collaborative center of education, resources, and support for children and their families living with neurologic conditions and facilitate connection with medical professionals who care for them.

The Foundation's board of directors has established programmatic priorities in the following areas, including transition of care, peer support, disease education and awareness, collaborative models of advocacy, grants and scholarships, and improving communication between health care provider and patients/caregivers.

Financial Statement Presentation

Net assets, support, revenue, expenses, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Without Donor Restrictions – Resources over which the board of directors has discretionary control.

With Donor Restrictions – Those resources subject to donor-imposed restrictions which will be satisfied by actions of the Foundation, the passage of time or require that they be maintained in perpetuity by the Foundation; generally, the donor of these assets permits the Foundation to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.

Cash and Cash Equivalents

The Foundation considers all highly liquid debt instruments with original maturities of 12 months or less to be cash equivalents. The Foundation maintains cash in bank accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts.

Pledges Receivables

Pledges receivables that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the amount expected to be collected. Accordingly, the Foundation accounts for uncollectible accounts by the reserve method, which is based on management's judgment considering historical information. At December 31, 2022 and 2021, the allowance was \$25,000 and \$-0-, respectively. Long-term pledge receivables are recorded net of discounts of \$3,529 and \$9,432 as of December 31, 2022 and 2021, respectively.

Property and Equipment

Property and equipment costing more than \$1,000 are capitalized at original cost. Additions, improvements, or major renewals are capitalized. Any gains or losses on property and equipment retirements are reflected in the current year operations.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation expense is computed using the straight-line method at rates based on estimated service lives as follows:

Software and Computer Equipment	3 Years
Portable Conference Booth	5 Years
Furniture	7 Years

Investments

Investments are made up of operating cash invested in short-term readily marketable exchange-traded funds and operating reserve/endowment investments for purposes of earning long-term investment income. These investments are recorded at fair value. Certificates of deposit with maturities of less than one year are recorded at cost.

Leases

The Foundation leases office space in Lexington, Kentucky. The Foundation determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) asset and lease liabilities on the statement of financial position.

ROU assets represent the Foundation's right to use an underlying asset for the lease term and lease liabilities represent the Foundation's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most of leases do not provide an implicit rate, the Foundation uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Grants Payable

Grants payable consist of awards and grants approved for various research projects and fellowships. Grants payable are recorded at the date the awards are approved. Long-term grants payable are discounted based on the year to be paid.

Fair Value Measurement

The Foundation categorizes its investments measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

Investments valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Foundation may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Contributions

Grants and contributions received are recorded as support with donor restrictions or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Contributions are recognized at fair value when the donor makes a promise to give to CNF that is, in substance, unconditional. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are recorded when the conditions upon which they depend have been met. Until that time, they are reported on the statement of financial position as a refundable advance.

Grants and contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. When a restriction is satisfied, net assets with donor restrictions are released to net assets without donor restrictions.

Revenue Recognition

Membership fees are for benefits received over a calendar year period and are recognized in the period they apply to. Membership fees are considered an exchange transaction and fees received in advance of the membership year are recognized as deferred revenue in the statement of financial position. Revenue for membership fees is recognized over the time, and totaled \$712,500 and \$608,333 at December 31, 2022 and 2021, respectively.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Expenses

The Foundation's costs of providing its various services have been classified on a program basis in the statements of activities. Accordingly, certain costs have been allocated among the program and support services benefited. Expenses are charged directly to programs and support services where possible. Remaining expenses are allocated based on actual time spent on programs and support services.

Income Taxes

The Foundation is organized and operates on a nonprofit basis and its tax-exempt status has been recognized by the Internal Revenue Service (IRS) under Section 501(c)(3). The Foundation is classified as an organization which is not private foundations under the Internal Revenue Code (IRC) and charitable contributions by donors are tax deductible. The Foundation is subject to unrelated business income taxes under the IRC for federal and state tax purposes.

The Foundation follows the provisions of the Financial Accounting Standards Board (FASB), which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Foundation does not believe its financial statements include any uncertain tax positions. The Foundation's tax returns are subject to review and examination by federal authorities.

Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through March 27, 2023, the date the financial statements were available to be issued.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 2 PLEDGES RECEIVABLE

Pledges receivable include the following at December 31:

	<u>2022</u>	<u>2021</u>
Pledge Due:		
In Less Than One Year	\$ 683,476	\$ 1,298,043
In One to Five Years	<u>305,000</u>	<u>635,000</u>
Subtotal	988,476	1,933,043
Less: Allowance for Doubtful Accounts	(25,000)	-
Less: Discount to Present Value	<u>(3,529)</u>	<u>(9,432)</u>
Total Pledges Receivable	<u>\$ 959,947</u>	<u>\$ 1,923,611</u>

Contributions expected to be received beyond one year are reflected at the present value of future cash flows at the date of donation using discount rates between 0.73% to 0.97%.

NOTE 3 INVESTMENTS

The investments held by the Foundation consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ (1,713)	\$ 41,826
Certificates of Deposit	850,000	-
U.S. Treasury Notes	130,568	-
Exchange-Traded Funds - Equities	276,090	191,439
Exchange-Traded Funds - Fixed Income	45,171	200,413
Exchange-Traded Funds - Alternatives	-	89,999
Total Investments	<u>\$ 1,300,116</u>	<u>\$ 523,677</u>
Investments, Short-Term	\$ 853,447	\$ 389,602
Investments, Long-Term	<u>446,669</u>	<u>134,075</u>
Total Investments	<u>\$ 1,300,116</u>	<u>\$ 523,677</u>

NOTE 4 FAIR VALUE MEASUREMENTS

The Foundation uses fair value measurements to record fair value adjustments to certain investments and to determine fair value disclosures. For additional information on how the Foundation measures fair value, refer to Note 1 – Summary of Significant Accounting Policies.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy at December 31:

	2022			Fair Value
	Level 1	Level 2	Level 3	
Investments:				
Exchange Traded Funds - Equities	\$ 276,090	\$ -	\$ -	\$ 276,090
Exchange Traded Funds - Fixed Income	45,171	-	-	45,171
U.S. Treasury Notes	-	130,568	-	130,568
Subtotal - Fair Value	<u>\$ 321,261</u>	<u>\$ -</u>	<u>\$ -</u>	451,829
Cash and Cash Equivalents				(1,713)
Certificates of Deposit at Cost				850,000
Total				<u>\$ 1,300,116</u>

	2021			Total
	Level 1	Level 2	Level 3	
Investments:				
Exchange Traded Funds - Equities	\$ 191,439	\$ -	\$ -	\$ 191,439
Exchange Traded Funds - Fixed Income	200,413	-	-	200,413
Exchange Traded Funds - Alternatives	89,999	-	-	89,999
Subtotal - Fair Value	<u>\$ 481,851</u>	<u>\$ -</u>	<u>\$ -</u>	481,851
Cash and Cash Equivalents				41,826
Total				<u>\$ 523,677</u>

NOTE 5 GRANTS PAYABLE

Grants payable include the following at December 31:

	2022	2021
Current Portion of Grants Payable	\$ 250,000	\$ 200,000
Long-Term Portion of Grants Payable	141,965	99,536
Net Grants Payable	<u>\$ 391,965</u>	<u>\$ 299,536</u>

	2022	2021
Amounts Due:		
One Year or Less	\$ 250,000	\$ 200,000
One to Five Years	150,000	100,000
Discount to Present Value	(8,035)	(464)
Net Grants Payable	<u>\$ 391,965</u>	<u>\$ 299,536</u>

Grants expected to be paid beyond one year are reflected at the present value of future cash flows using discount rates ranging 0.73% to 4.41% based on when the grants were approved.

**CHILD NEUROLOGY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 6 CONTRACT LIABILITIES

Deferred revenue consists of future years dues and program fees. Balances were \$158,000, \$235,000, and \$280,000 for the years ended December 31, 2022, 2021, and 2020, respectively.

NOTE 7 NOTE PAYABLE

In February 2021, the Foundation entered into a note payable agreement with the Lexington-Fayette Urban County Government for \$100,000. The note has an interest rate of 2.0% per annum and matures on April 15, 2031. Interest-only payments are due on the note quarterly through maturity. The note has certain covenants for job creation in Lexington-Fayette County, Kentucky, and if certain conditions and all other covenants are met, annually 10% of the outstanding loan balance will be forgiven, up to the full principal amount of the loan. If an event of default on the loan should occur during the term of the loan, the full remaining principal of the loan, any interest accrued, and additional interest of 12% per annum from the date of default would be immediately due and payable. The Foundation received \$10,000 of loan forgiveness in 2022. The principal balance was \$90,000 and \$100,000 at December 31, 2022 and 2021, respectively.

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at December 31:

	<u>2022</u>	<u>2021</u>
Research Grants	\$ 911,517	\$ 1,215,719
Operational Grant	16,000	481,650
Children's Health Improvement through Computerized Automation (CHICA)	-	451,918
Child-Adult Transition of Care Program	50,000	341,350
Annual Education Initiatives (Symposiums)	9,200	175,000
Preventing Epilepsy Mortality Project	-	130,000
Patient Education	60,000	111,598
Family Support Program	-	75,000
Harnett Infantile Spasms Awareness Grant	8,368	9,368
Digital Access	-	316
Neuro Developmental Disorders Award Endowment	113,022	134,075
Total	<u>\$ 1,168,107</u>	<u>\$ 3,125,994</u>

**CHILD NEUROLOGY FOUNDATION
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NOTE 9 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by the Foundation incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2022</u>	<u>2021</u>
Research Grants	\$ 329,940	\$ 207,000
Operational Grant	466,000	218,500
Children's Health Improvement through Computerized Automation (CHICA)	451,918	500,000
Child-Adult Transition of Care Program	366,350	270,000
Annual Education Initiatives (Symposiums)	370,033	177,500
Preventing Epilepsy Mortality Project	130,000	42,500
Patient Education	128,265	304,241
Family Support Program	100,000	50,826
Harnett Infantile Spasms Awareness Grant	1,000	1,000
Digital Access	55,316	107,130
Infantile Spasm Awareness	85,942	80,555
Telehealth	-	83,527
Neuro Developmental Disorders Award Endowment	5,299	4,850
Total	<u>\$ 2,490,063</u>	<u>\$ 2,047,629</u>

NOTE 10 ENDOWMENT

The Foundation's donor-restricted endowment consists of one fund established to support scholarships and, as required by accounting principles generally accepted in the United States of America, net assets associated with that endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of directors of the Foundation has determined the presentation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is classified as net assets with donor restrictions are earnings on perpetual endowments. These remain in net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence.

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NOTE 10 ENDOWMENT (CONTINUED)

The Foundation considers the following factors when making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

The Foundation has a policy of appropriating for distribution each year a maximum of 5% of the year-end market value of each endowment fund. Spending available for each fund will be used to cover award distributions, administrative fees, and investment management fees. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at an average of the long-term rate of inflation.

Changes in endowment net assets for the fiscal years ended December 31 consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, December 31, 2020	\$ -	\$ 133,951	\$ 133,951
Investment Income	-	4,974	4,974
Contributions	-	-	-
Appropriation of Endowment Funds	-	(4,850)	(4,850)
Balance, December 31, 2021	-	134,075	134,075
Investment Loss	-	(16,454)	(16,454)
Contributions	-	700	700
Appropriation of Endowment Funds	-	(5,299)	(5,299)
Balance, December 31, 2022	<u>\$ -</u>	<u>\$ 113,022</u>	<u>\$ 113,022</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2022 and 2021, no such deficiencies were noted.

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NOTE 11 CONCENTRATIONS

At December 31, 2022, 74% of the net pledges receivable balance was from one donor and approximately 27% of the contribution revenue was from two donors. At December 31, 2021, approximately 80% of net pledges receivable was from two donors and 37% of contribution revenue was from three donors.

NOTE 12 LEASES

The Foundation leases office space under a long-term, noncancelable lease agreement, commencing November 1, 2021. The lease expires December 31, 2024 and provides for renewal options for up to two additional 36-month terms. In the normal course of business, it is uncertain whether these leases will be renewed or replaced by similar leases.

The following table provides quantitative information concerning the Foundation's leases as of December 31:

	<u>2022</u>	<u>2021</u>
Other Information:		
Cash Paid for Amounts Included in the Measurement of Lease Liabilities		
Operating cash flows from operating leases	\$ (34,200)	\$ -
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	\$ -	\$ 104,516
Weighted Average Remaining Lease Term - Operating Leases	1.9 Years	2.9 Years
Weighted Average Discount Rate - Operating Leases	0.7%	0.7%

The Foundation classifies the total undiscounted lease payments that are due in the next 12 months as current. A maturity analysis of annual undiscounted cash flows for lease liabilities as of December 31, 2022, is as follows:

<u>Year Ending December 31,</u>	<u>Operating Leases</u>
2023	\$ 35,226
2024	36,283
Undiscounted Cash Flows	<u>71,509</u>
Less: Imputed Interest	<u>(1,024)</u>
Total Present Value	<u>\$ 70,485</u>

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NOTE 13 LIQUIDITY

The Foundation receives significant donor-restricted contributions and promises to give, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Foundation further manages its liquidity and reserves following two guiding principles: operating within a prudent range of financial soundness and stability and maintaining adequate liquid assets to fund near-term operating needs. The Foundation forecasts its monthly cash flows and monitors its liquidity monthly to insure resources are available to meet obligations as they become due. During the years ended December 31, 2022 and 2021, the level of liquidity was as follows.

	<u>2022</u>	<u>2021</u>
Cash, Cash Equivalents, and Short-Term Investments	\$ 1,233,982	\$ 2,375,833
Accounts Receivable (to be Received within 12 Months)	658,476	1,298,043
Assets with Donor Restrictions	<u>(482,136)</u>	<u>(1,436,177)</u>
Total Liquid Assets	<u>\$ 1,410,322</u>	<u>\$ 2,237,699</u>

Based on analyses of its revenue cycles and per its financial policies, CNF has set a target minimum operating reserve calculated using the following criteria: 50% of the three-year average expense budgets; 25% of the three-year average operating revenue; \$250,000 to cover uninsurable losses. The reserve itself consists of these assets without donor restrictions: cash and cash equivalents, accounts receivable, and long-term investments.

The purpose of the CNF Operating Reserve Policy is to build and maintain an adequate level of net assets to support the organization's day-to-day operations in the event of unforeseen shortfalls. The reserve may also be used for one-time, nonrecurring expenses that will build long-term capacity, such as staff development, research and development, or investment in infrastructure. Operating reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. The organization intends for the operating reserves to be used and replenished within a reasonable period of time.

The reserve policy target is calculated as follows for the years ended December 31:

	<u>2022</u>	<u>2021</u>
50% of Three-Year Average Expense Budgets	\$ 1,845,133	\$ 1,638,199
25% of Three-Year Average Operating Revenue	943,557	836,379
Uninsured Losses	<u>250,000</u>	<u>250,000</u>
Total	<u>\$ 3,038,690</u>	<u>\$ 2,724,578</u>

The unrestricted net assets balance was approximately \$575,000 and \$448,000 for the years ended December 31, 2022 and 2021, respectively.



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